KOOTENAY SILVER INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended

June 30, 2023

and

June 30, 2022

(Unaudited)

(Expressed in Canadian dollars)

Notice of no Auditor review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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CONSOLIDATED INTERIM FINANCIAL STATEMENTS

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		June 30, 2023		December 31, 2022
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**3,191,553**	$	2,947,564
Receivables and advances (Note 9)		**1,608,083**		1,295,215
Prepaid expenses		**509,448**		576,120
Marketable securities (Note 4)		**2,068,524**		3,267,537
		7,377,608		8,086,436
Non-current assets:				
Fixed assets (Note 5)		**921,641**		929,915
Exploration advances and deposits		**3,884**		3,884
Exploration and evaluation assets (Note 6)		**17,247,114**		13,489,863
Total assets	**$**	**25,550,247**	$	22,510,098
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities (Note 11)	**$**	**137,766**	$	324,531
		137,766		324,531
Shareholders' equity:				
Share capital (Note 8)		**104,521,689**		102,455,061
Reserves (Note 8)		**50,320,337**		47,003,352
Accumulated other comprehensive loss (Exhibit 4)		**4,372,353**		4,215,908
Deficit		**(133,801,898)**		(131,488,754)
Total shareholders' equity		**25,412,481**		22,185,567
Total liabilities and shareholders' equity	**$**	**25,550,247**	$	22,510,098

Nature of Operations (Note 1)
Commitments (Note 13)
Subsequent events (Note 16)

Approved on Behalf of the Board:

"Jon Morda"
Director

"James McDonald"
Director

- See Accompanying Notes -

KOOTENAY SILVER INC.
(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF LOSS

Exhibit 2

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
General and administrative expenses				
Office and general (Note 11)	**$ 384,486**	$ 350,576	**$ 657,220**	$ 654,178
Option based compensation (Note 8)	**271,591**	2,603	**803,339**	5,467
Professional fees	**107,403**	69,491	**288,986**	226,387
Management fees (Note 11)	**60,000**	70,000	**120,000**	150,000
Rent	**35,225**	40,243	**72,310**	36,392
Regulatory and filing fees	**35,552**	19,907	**96,575**	51,966
Depreciation (Note 5)	**5,418**	9,048	**11,003**	26,054
Loss before exploration and other Items	**899,675**	561,868	**2,049,433**	907,866
Exploration				
Exploration Expenditures	**264,398**	-	**496,482**	-
Mineral property investigation (Note 6)	**15**	42,734	**2,133**	74,344
Impairment of Exploration and Evaluation assets (Note 6)	**-**	70,576,209	**-**	70,577,472
	264,413	70,618,943	**498,615**	70,651,816
Other Items				
Share of income from associates	-	-	**-**	(493)
Foreign exchange (gain)/loss	**(14,389)**	11,943	**(19,650)**	64,695
Gain on sale of marketable securities	**(160,702)**	-	**(159,428)**	-
Finance income	**(14,551)**	(15,692)	**(33,103)**	(20,800)
IVA recovered	**(22,723)**	-	**(22,723)**	-
	(212,365)	(3,749)	**(234,904)**	43,402
Loss for the period	**951,723**	71,177,062	**2,313,144**	71,792,334
Basic and diluted loss per share (Note 8)	**$ (0.002)**	$ (0.198)	**$ (0.005)**	$ (0.208)
Weighted average number of shares outstanding	**433,204,916**	359,917,436	**424,387,937**	345,166,884

- See Accompanying Notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

		Three months ended June 30,				Six months ended June 30,		
		2023		2022		**2023**		2022
Loss for the period	**$**	**951,723**	$	71,177,062	**$**	**2,313,144**	$	71,792,334
Other comprehensive loss								
Fair value changes to marketable securities arising during the period		**143,497**		106,965		**184,843**		77,659
Foreign currency translation differences of foreign operations		**(204,600)**		(1,220,935)		**(341,288)**		(791,871)
Total other comprehensive (income) loss		**(61,103)**		(1,113,970)		**(156,445)**		(714,212)
Comprehensive loss for the period	**$**	**890,620**	$	70,063,092	**$**	**2,156,699**	$	71,078,122

- See Accompanying Notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Exhibit 4

	Number of Shares		Capital Stock		Reserves		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance, December 31, 2021	320,684,936	$	101,892,682	$	37,267,042	$	2,873,244	$	(53,588,624)	$	88,444,344
Shares issued, net of issuance costs	39,062,500		(142,184)		5,797,484		-		-		5,655,300
Option based compensation	-		-		23,691		-		-		23,691
Exercise of share purchase options	170,000		37,910		(14,110)		-		-		23,800
Fair value changes to marketable securities arising during the period	-		-		-		(77,659)		-		(77,659)
Foreign currency translation differences of foreign operations	-		-		-		791,871		-		791,871
Loss for the period	-		-		-		-		(71,792,334)		(71,792,334)
Balance, June 30, 2022	**359,917,436**	**$**	**101,788,407**	**$**	**43,074,107**	**$**	**3,587,456**	**$**	**(125,380,958)**	**$**	**23,069,012**
Balance, December 31, 2022	415,472,991	$	102,455,061	$	47,003,352	$	4,215,908	$	(131,488,754)	$	22,185,567
Shares issued, net of issuance costs	42,196,042		2,066,628		1,788,470		-		-		3,855,098
Option based compensation	-		-		1,528,515		-		-		1,528,515
Fair value changes to marketable securities arising during the year	-		-		-		(184,843)		-		(184,843)
Foreign currency translation differences of foreign operations	-		-		-		341,288		-		341,288
Loss for the period	-		-		-		-		(2,313,144)		(2,313,144)
Balance, June 30, 2023	**457,669,033**	**$**	**104,521,689**	**$**	**50,320,337**	**$**	**4,372,353**	**$**	**(133,801,898)**	**$**	**25,412,481**

- See Accompanying Notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Exhibit 5

	Three months ended June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities				
Loss for the period	**$ (975,260)**	$ (71,177,062)	**$ (2,336,681)**	$ (71,792,334)
Add items not involving cash:				
Option based compensation	**271,591**	11,281	**803,339**	23,691
Gain from marketable securities	**(160,702)**	-	**(159,428)**	-
Share of income from associates (Note 8)	**-**	-	**-**	(493)
Impairment of mineral properties	**-**	70,576,209	**-**	70,577,472
Depreciation	**5,418**	9,048	**11,003**	17,298
	(858,953)	(580,523)	**(1,681,767)**	(1,173,873)
Changes in non-cash working capital balances:				
Receivable and advances	**(193,489)**	(276,462)	**(109,756)**	(383,512)
Prepaid expenses	**(8,933)**	(14,432)	**65,984**	(48,029)
Accounts payable and accrued liabilities	**(280,544)**	(208,891)	**(159,980)**	(142,431)
	(1,341,919)	(1,080,308)	**(1,885,519)**	(1,748,339)
Cash flows from financing activities				
Exercise of options	**-**	-	**-**	23,800
Proceeds from private placement	**3,350,675**	-	**3,348,611**	5,655,300
	3,350,675	-	**3,348,611**	5,679,100
Cash flows from investing activities				
Investment in exploration and evaluation assets	**(1,157,309)**	(1,638,384)	**(2,416,959)**	(2,238,279)
Investment in equipment	**-**	(5,077)	**-**	(8,994)
Investment in associate	**-**	**-**	**-**	(311,667)
Accounts payable exploration and evaluation assets	**6,121**	6,304	**(25,256)**	(17,021)
Proceeds from sale of marketable securities	**1,090,796**	-	**1,162,599**	-
	(60,392)	(1,637,157)	**(1,279,616)**	(2,575,961)
Effect of foreign exchange rate changes on cash	**32,838**	(40,566)	**60,513**	27,395
Net change in cash and cash equivalents during the period	**1,981,202**	(2,758,031)	**243,989**	1,382,195
Cash and cash equivalents, beginning of the period	**1,210,351**	6,141,670	**2,947,564**	2,001,444
Cash and cash equivalents, end of the period	**$ 3,191,553**	$ 3,383,639	**$ 3,191,553**	$ 3,383,639

Supplemental disclosure of cash and non-cash activities (Note 10)

- See Accompanying Notes -

(Expressed in Canadian dollars)

1 Nature of Operations and Going Concern

Kootenay Silver Inc. and its wholly owned subsidiaries (the "Company") is a Canadian exploration stage Company incorporated under the *Business Corporations Act* (British Columbia). The address of the Company's registered office is 910 - 810 West Pender St. Vancouver, British Columbia, Canada. The Company is currently listed on the TSX Venture Exchange ("TSX-V") under the symbol "KTN".

The Company is focused on acquiring and exploring mineral properties principally located in Mexico, with the objective of identifying mineralized deposits economically worthy of subsequent development, mining or sale.

These consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. There are conditions and events, which constitute material uncertainties that may cast significant doubt on the validity of this assumption.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

The Company has predominately experienced operating losses and negative operating cash flows; operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. Management has estimated that the Company has sufficient financing to complete current work plans; however, future development will require additional financing in order to complete all anticipated exploration and other programs during the forthcoming year and thereafter. If funds are unavailable terms satisfactory to the Company, some or all planned activities may be cancelled or postponed. The above factors give rise to material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of resource property expenditures is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. The Company will need access to capital to continue advancing its projects in Mexico.

These consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated interim financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

	June 30, 2023	December 31, 2022
Deficit	**$ 133,801,898**	$ 131,488,754
Working capital	**$ 7,239,842**	$ 7,761,905

2 Basis of Presentation:

Statement of Compliance

These consolidated interim financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated interim financial statements are for the six months ended June 30, 2023 and have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). They do not include all the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022. The policies applied in these consolidated interim financial statements are consistent with the accounting policies disclosed in Notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2022.

These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on August 27, 2023.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the Company and its wholly owned subsidiaries, Northair Silver Corp. The functional currency of wholly owned subsidiaries of the Company, Minera JM S.A. de C.V., and Grupo Northair de Mexico S.A. de C.V., is the US dollar and for Servicios de Exploraciones Sonora, S.A. de C.V., is the Mexican Peso.

Assets and liabilities of the subsidiaries with a functional currency in US dollars and Mexican pesos are translated at the period-end exchange rates, and the results of its operations are translated at average exchange rates for the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss (income) in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive loss.

3 Significant Accounting Policies:

The significant accounting policies applied in the preparation of these consolidated interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2022 except as noted below. These consolidated interim statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022. Amendments to IAS 1, 8 and 12, effective January 1, 2023, have no material impact on the consolidated financial statements.

4 Marketable Securities:

As at June 30, 2023, the fair value of marketable securities held was $2,068,524 (2022– $3,267,537). A total of $1,747,997 (2022 – $2,905,665) relate to investments in publicly traded companies which have issued to the Company common shares in consideration of various property earn-in option agreements. The remaining $320,527 (2022 – $320,527) is held in a private company which are not publicly traded. During the six months ended June 30, 2023, the Company recorded in other comprehensive loss $184,843 (2022– $77,659) for fair value adjustments to marketable securities.

(Expressed in Canadian dollars)

5 Fixed Assets:

	Vehicle	Office Equipment	Computer Equipment	Land	Total
Cost					
Balance December 31, 2021	$ 244,697	$ 67,252	$ 387,893	$ 803,304	$ 1,503,146
Addition	1,116	-	9,278	-	10,394
Effect of foreign exchange	(9,547)	-	45,550	-	36,003
Balance December 31, 2022	$ 236,266	$ 67,252	$ 442,721	$ 803,304	$ 1,549,543
Addition	-	-	-	-	-
Effect of foreign exchange	(6,193)	-	4,904	-	(1,289)
Balance June 30, 2023	**$ 230,073**	**$ 67,252**	**$ 447,625**	**$ 803,304**	**$ 1,548,254**
Accumulated Depreciation					
Balance December 31, 2021	$ 200,633	$ 60,488	$ 319,154	$ -	$ 580,275
Depreciation for the year	12,820	2,007	18,477	-	33,304
Effect of foreign exchange	(4,178)	(654)	10,881	-	6,049
Balance December 31, 2022	$ 209,275	$ 61,841	$ 348,512	$ -	$ 619,628
Depreciation for the period	1,250	724	9,029	-	11,003
Effect of foreign exchange	(7,036)	(183)	3,201	-	(4,018)
Balance June 30, 2023	**$ 203,489**	**$ 62,382**	**$ 360,742**	$ -	**$ 626,613**
Carrying value December 31, 2022	$ 26,991	$ 5,411	$ 94,209	$ 803,304	$ 929,915
Carrying value June 30, 2023	**$ 26,584**	**$ 4,870**	**$ 86,883**	**$ 803,304**	**$ 921,641**

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2023 and 2022

6 Exploration and evaluation assets:

	MEXICO						
	Promontorio	**La Cigarra**	**Columba**	**Copalito**	**Generative Anomalies**	**2023 Total**	2022 Total
	$	$	$	$	$	$	$
Acquisition Costs							
Balance, beginning	3,658,642	30,548,524	2,914,710	794,981	826,090	**38,742,947**	36,655,224
Incurred	-	-	1,741,551	-	-	**1,741,551**	624,971
Balance, ending	**3,658,642**	**30,548,524**	**4,656,261**	**794,981**	**826,090**	**40,484,498**	37,280,195
Exploration Expenditures							
Balance, beginning	32,687,917	6,480,154	9,859,162	3,185,955	7,762,184	**59,975,372**	56,333,059
Assaying and Lab	-	-	50,050	-	78	**50,128**	81,139
Camp Costs	-	-	-	-	-	**-**	1,394,234
Drafting	-	-	28,782	-	-	**28,782**	-
Drilling	-	-	-	-	-	**-**	1,186,298
Geological mapping	-	-	164,207	-	-	**164,207**	446,399
Maintenance	-	-	-	-	427	**427**	1,714,551
Miscellaneous	-	-	-	-	160,612	**160,612**	67,960
Geological Consulting and Prospecting	-	-	1,266,283	-	2,129	**1,268,412**	214,484
Incurred	**-**	**-**	**1,509,322**	**-**	**163,246**	**1,672,568**	5,105,065
Balance, ending	32,687,917	6,480,154	11,368,484	3,185,955	7,925,430	**61,647,940**	61,438,124
Total properties balance	**36,346,559**	**37,028,678**	**16,024,745**	**3,980,936**	**8,751,520**	**102,132,438**	98,718,319
Balance, beginning	**(36,346,559)**	**(37,028,678)**	**(763,260)**	**(3,980,936)**	**(7,109,023)**	**(85,228,456)**	(11,042,508)
Option payment received	-	-	-	-	-	**-**	-
Impaired or disposed	-	-	-	-	-	**-**	(74,558,448)
Cumulative change in foreign currency translation	-	-	312,554	-	30,579	**343,132**	372,500
Carrying value exploration and evaluation assets	**-**	**-**	**15,574,038**	**-**	**1,673,076**	**17,247,114**	13,489,863

6 Exploration and evaluation assets *(continued)*:

Asset Impairment

For the year ending December 31, 2022, the Company determined that there were indicators of impairment in the carrying value of certain of its exploration and evaluation assets. In evaluating the carrying value of certain of its assets, the Company determined that those assets would not be allocated additional budgeted expenditures, as it was prioritizing its financial resources to advancing its most favourable assets. The Company reviewed the carrying value of those assets with reference to any cash-flow models or indicative third-party valuations. In the absence of quantifiable economic modelling or observable market data, it was determined that certain assets would be considered substantially impaired.

La Cigarra – Chihuahua State, Mexico

The Company acquired the La Cigarra project through the acquisition of Northair and its wholly owned Mexican subsidiary Grupo Northair.

The La Cigarra project is 100% owned by the Company with no underlying royalty on the resource. However certain concessions are subject to a 1% net smelter royalty under an agreement with DFX Exploration Ltd. (the "DFX Agreement"). Pursuant to the terms of the DFX Agreement, a royalty will be paid of $0.10 per silver equivalent ounce from production to a maximum of 185 million ounces from the Parral 2 concession.

On April 19, 2016, the Company purchased from Coeur Capital a 2.5% net smelter royalty ("NSR Acquisition") that it held on the La Cigarra project for total consideration of US$2,500,000 of which US$500,000 ($646,025) was paid in cash and US$2,000,000 was completed through the issuance of 9,629,091 common shares (valued at $2,648,000) of the Company. The NSR Acquisition and transaction costs have been recorded as La Cigarra acquisition costs. During the year ended December 31, 2022, the Company recorded an impairment expense for accounting purposes of $36,882,567 to the carrying value of La Cigarra. The Company maintains the project in good standing. The recognition of impairment was determined primarily due to a lack of financing and no significant work is planned in 2023.

Promontorio – Sonora State, Mexico

The Company entered into an agreement on October 20, 2006 with Siete Campanas de Plata, S.A de C.V. ("Siete"), Exploration Canada De Oro, SA de CV ("ECO") and the Mexican Government Agency ("FIFOMI") to acquire an unencumbered 100% registered and beneficial interest in the Promontorio Concession, which includes the former producing Promontorio Mine Site. Upon completion of a bankable feasibility study or commencement of production, the Company must pay the remaining cash balance of US$210,000 to ECO.

A 1% net smelter royalty is payable to Siete on the core claims of Promontorio of which the Company can purchase 50% of this net smelter royalty at any time for US$500,000. The Company also has a right of first refusal to purchase the remaining 50% of this royalty. Additionally, a 2% net smelter royalty is payable to ECO on the core and surrounding claims. The Company may upon commencement of commercial production or sooner purchase 50% of this net smelter return for US$1,000,000. The Company also has a right of first refusal on the remaining 50% of this royalty. During the year ended December 31, 2022, the Company recorded an impairment expense for accounting purposes of $33,693,642 to the carrying value of Promontorio. The Company maintains the project in good standing. The recognition of impairment was determined primarily due to a lack of financing and no significant work is planned in 2023.

6 Exploration and evaluation assets *(continued)***:**

Columba – Chihuahua State, Mexico

On November 12, 2018, the Company entered into an option agreement to acquire an undivided interest in the Columba concession. Under the terms of the agreement, the Company must make total cash payments of US$3,290,000 within a four-year period with an initial payment of US$15,000 and first and second years payments totalling US$75,000 and US$150,000 respectively. Payments totalling US$500,000 and US$150,000 were made during the year ended December 31, 2021 and 2020 respectively. During the year ended December 31, 2022, the Company paid a further US$1,245,000. During the six months ended June 30, 2023, US$1,075,000 was paid, of which US$215,000 will be settled by issuing 2,452,332 common shares. The Agreement includes a work commitment of US$250,000 by the first anniversary and US$750,000 by the second anniversary of the Agreement, which the Company has fulfilled early. Upon earn-in the vendors retain a 2% n.s.r. of which 1% can be purchased by the Company for US$750,000.

Copalito – Sinaloa, Mexico

On April 19, 2018, the Company entered into an option agreement to acquire an undivided interest in the Copalito concession. Under the terms of the agreement, the Company were to make total staged cash payments of US$985,000 within a four-year period with an initial payment of US$30,000 on signing. The Company made cumulative payments totalling US$595,000, with US$135,000 paid during the year ended December 31, 2022. A finders fee of 100,000 common shares with a fair market value of $15,500 and a cash payment of $10,000 were paid in connection with the option agreement. During the year ended December 31, 2022, the option agreement was terminated by the Company and an impairment expense of $3,980,936 was recorded.

Other Properties – Mexico

The Company owned 100% interest in the various properties through staking.

On March 17, 2018, the Company entered into an option agreement with Capstone Mining Corp. (“Capstone”), whereby the Company granted Capstone the right to earn up to a 100% interest in the La Mina property. The terms of the agreement allow Capstone to earn an initial 60% interest by: spending an aggregate total of US$4 million in exploration expenditures over 4 years and paying an aggregate total of US$600,000 in staged payments to the Company on each anniversary to the Company. During the year ended December 31, 2021, the Company received US$100,000 from Capstone under the terms of the option agreement. During the six months ended June 30, 2023, the option agreement was terminated by Capstone.

Property Investigation and Impairment

During the six months ended June 30, 2023, the Company expended $2,133 (2022 - $74,344) related to other property investigation expense and $Nil (2022 - $70,577,472) in property impairment expenses, which is related to mineral properties located in Mexico. The Company reviews periodically for indicators of impairment in the carrying value of its mineral assets. During the six months ended June 30, 2023, no impairment was recorded. Based on the Company's future exploration budget, which now focuses on the Columba high-grade deposit, it has determined that an impairment in the carrying value of the Promontorio and La Cigarra assets be recorded due to no significant work is planned for 2023.

6 Exploration and evaluation assets *(continued)***:**

Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

7 Investment in Associate

On December 16, 2020 Kootenay completed the formation of a joint venture named Aztec Minerals (Mexico) JV Corp. with Aztec in respect of the Cervantes project (Note 6). Aztec completed its earn-in and exercised its option to acquire a 65% interest in Cervantes project through the joint venture. Kootenay retains the remaining 35% interest. During year ended December 31, 2022, the Company sold its 35% interest in the JV for 10 million common shares of Aztec with a fair value of $2.5 million and retained a 0.5% NSR on the Cervantes project. For the year ended December 31, 2022, the Company recorded a gain on the sale of $1,757,762.

8 Share Capital and Reserves:

Authorized:
The authorized share capital is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. All issued shares, consisting of only common shares are fully paid. There were 457,669,033 fully paid common shares on issue as at June 30, 2023.

Issued:

<u>Six months ended June 30, 2023</u>

On My 15, 2023, an aggregate total of 4,471,042 common shares of the Company were issued in settlement of property acquisition payments related to the Columba property, with a fair value of $506,487, of which 2,452,332 common shares were issued with a fair value of $291,717, being settlement of US$215,000 option payment. On May 24, 2023, the Company announced that it has closed its previously announced brokered private placement offering (the "Offering") for gross proceeds of approximately $2.14 million consisting of 21,390,000 units of the Company (the "Units"), at a price of $0.10 per Unit (the "Offering Price"), with a non-brokered portion of the offering ("Non-Brokered Portion") for gross proceeds of approximately $1.63 million consisting of 16,335,000 Units at the Offering Price, for aggregate gross proceeds to the Company of $3.77 million.

Each Unit is comprised of one common share of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant is exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of $0.14 per Warrant Share for a period of 36 months from the closing of the Offering.

<u>Year ended December 31, 2022</u>

During the year ended December 31, 2022, 170,000 common shares were issued upon exercise of share options for gross proceeds of $23,800, the weighted average market price on date of exercise was $0.175. On March 9, 2022, the Company closed a brokered private placement offering (the "Offering") for gross proceeds of $4.78 million consisting of 29,881,000 units of the Company (the "Units") at a price of $0.16 per Unit (the "Offering Price"), with a non-brokered portion of the offering ("Non-Brokered Portion") for gross proceeds of approximately $1.47 million consisting of 9,181,500 Units at the Offering Price, for aggregate gross proceeds to the Company of $6.25 million.

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued):*

Each Unit is comprised of one common share of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant is exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of $0.22 per Warrant Share for a period of 36 months from the closing of the Offering.

On November 8, 2022, the Company closed a brokered private placement offering (the "Offering") for gross proceeds of approximately $3.56 million consisting of 39,561,110 units of the Company (the "Units"), including the full exercise of the option granted to the Agents, at a price of $0.09 per Unit (the "Offering Price"), with a non-brokered portion of the offering ("Non-Brokered Portion") for gross proceeds of approximately $1.44 million consisting of 15,994,445 Units at the Offering Price, for aggregate gross proceeds to the Company of $5 million. Each Unit is comprised of one common share of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant is exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of $0.135 per Warrant Share for a period of 36 months from the closing of the Offering.

Options and Warrants:

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2021	70,629,511	$	0.25	14,095,000	$	0.27
Granted	99,922,804		0.17	-		-
Exercised	-		-	(170,000)		0.14
Expired	(26,050,000)		0.34	(6,695,000)		0.40
Outstanding, December 31, 2022	144,502,315	$	0.18	7,230,000	$	0.15
Granted	39,688,500		0.14	21,450,000		0.16
Outstanding, June 30, 2023	**184,190,815**	**$**	**0.17**	**28,680,000**	**$**	**0.15**

Warrants

As at June 30, 2023, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Warrants	Exercise Price	Expiry Date
44,579,511	0.20	March 5, 2024
39,062,500	0.22	March 8, 2025
2,260,875	0.16	March 8, 2025
55,555,555	0.14	November 7, 2025
3,043,874	0.09	November 7, 2025
37,725,000	0.14	May 23, 2026
1,963,500	0.10	May 23, 2026
184,190,815		

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued):*

The weighted average remaining life of the outstanding warrants is 1.92 years (December 31, 2022 – 2.15 years). The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in reserves until exercised, at which time they are transferred into share capital.

The following assumptions were used for the Black-Scholes valuation of warrants for the year ended December 31, 2022 and the period ended June 30, 2023**:**

	2023	2022
Risk-free interest rate	**4.22%**	2.21%-3.86%
Expected life of warrants	**36 months**	36 months
Fair value per warrant issued	**$0.07**	$0.06-$0.10
Annualized volatility	**90%**	87-88%
Dividend rate	**0.00%**	0.00%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

Options

The Company has adopted an incentive stock option plan under the rules of the TSX-V pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years and generally vest 25% in specified increments. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time.

During the six months ended June 30, 2023, option-based compensation totalling $1,528,515 (2022 - $12,409) of which $725,176 (2022 - $9,545) was capitalized under mineral properties and $803,339 (2022 - $2,864) was expensed. As at June 30, 2023, 17,955,000 options (December 31, 2022 – 7,230,000) with a weighted average exercise price of $0.15 per option (December 31, 2022 - $0.15) were fully vested and exercisable.

On January 13, 2023, the Company granted stock options to officers, directors, employees, and consultants to purchase up to an aggregate of 21,450,000 common shares of Kootenay at an exercise price of $0.155 per common share for a period of five years.

As at June 30, 2023, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

Number of Options	Exercise Price	Expiry Date
6,580,000	0.14	June 26, 2024
650,000	0.27	July 06, 2026
21,450,000	0.155	January 12, 2028
28,680,000		

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued):*

The weighted average remaining life of the options is 3.7 years (2022 – 1.7 years). For stock options granted to employees, officers, directors and consultants, share based payment expense is measured at fair value and recognized over the vesting period from the date of grant. The fair value of stock options granted during the year ended June 30, 2023 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2023
Risk-free interest rate	**0.37%**
Expected life of options	**5 years**
Fair value per option granted	**$0.105**
Annualized volatility	**82.9%**
Dividend rate	**0.00%**

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

Loss per share

The calculation of basic loss per share for the six months ended June 30, 2023 was based on the loss of $2,313,144 (2022 - $71,792,334) and the weighted average number of common shares outstanding of 424,387,937 (2022 – 345,166,884), respectively. The Company does not have any instruments that would give rise to a dilution effect as of June 30, 20223 and 2021. As at June 30, 2023, the Company has 26,680,000 options (2022 – 7,230,000) and 184,190,815 warrants (2022 – 111,952,886) that are anti-dilutive and thus, not included in diluted loss per share.

9 Receivables and advances:

The Company's receivables are as follows:

		June 30, 2023		December 31, 2022
IVA/GST receivable	**$**	**1,267,806**	$	997,049
Other receivable		**340,277**		298,166
Total	**$**	**1,608,083**	$	1,295,215

The Company recorded a provision for uncollectible IVA during the year ended December 31, 2022 of $2,141,337. Efforts for collection are ongoing. During the six months ended June 2023 the Company has collected $25,297.

(Expressed in Canadian dollars)

10 Supplemental Disclosure of Cash and Non-Cash Activities:

The following transactions incurred during the period did not include cash:

		June 30, 2023		December 31, 2022
Option based compensation capitalized in mineral property	**$**	**725,176**	$	18,224
Common shares issued for mineral property payments		**506,487**		-
Common shares received on sale of Cervantes joint venture		**-**		2,500,000
Mineral property costs included in accounts payable	**$**	**51,709**	$	76,965

11 Related Party Transactions and Balances:

Except as disclosed elsewhere in these consolidated interim financial statements the following related party transactions were incurred in the normal course of business and were measured at the exchange amount.

Key management renumeration:

Key management personnel comprise the Company's Board of Directors and executive officers.

		2023		2022
Management fees charged by companies controlled by a director and/or officers	**$**	**305,272**	$	230,000
Consulting, administrative and geological fees charged by a company with common officers (c)		**-**		40,000
	$	**305,272**	$	270,000

The Company has entered into a consulting agreement dated January 1, 2008 with Makwa Exploration Ltd. ("Makwa") for the services of James McDonald to act as the Company's President and CEO. The base monthly fee for Makwa was amended to $20,833.

Effective September 1, 2008, the Company entered into an administrative and geological services agreement with a private company indirectly related to two common directors, which provides services to the Company including assisting in professional analysis, geological personnel, planning of exploration programs, promotional materials; providing access to financial and secretarial services and providing such other additional instructions and directions as the Company may require. For the six months ended June 30, 2023, the Company incurred expenses $Nil (2022 - $40,000) under the administrative services contract.

In addition to the above:

a) For the six months ended June 30, 2023, the Company incurred $42,500 (2022 - $44,500) for compensation to directors. As at June 30, 2023, $38,000 (2022- $20,000) was held in accrued liabilities as owing to directors for compensation.

b) For the six months ended June 30, 2023, the Company recorded $617,027 (2022 - $Nil) for stock-based compensation to officers and directors, related to the grant of stock purchase options, of which $ 329,592 was recorded under Exploration and evaluation assets.

c) Management fees of $185,272 (2022 - $100,000) have been recorded under Exploration and evaluation assets.

(Expressed in Canadian dollars)

12 Segmented Information:

The Company has one reportable operating segment, being the acquisition and exploration and future development of mineral properties.

The Company's current assets, non-current assets, current liabilities, and mineral properties and non-current liabilities by geographic location are as follows:

	June 30, 2023	December 31, 2022
Canada:		
Current assets	**$ 6,495,964**	$ 7,217,100
Non-current assets	**15,592**	16,967
Current liabilities	**(78,735)**	(257,452)
	$ 6,432,821	$ 6,976,615
Mexico:		
Current assets	**$ 881,644**	$ 869,336
Mineral properties	**17,247,114**	13,489,863
Non-current assets	**909,933**	916,832
Current liabilities	**(59,031)**	(67,079)
	$ 18,979,660	$ 15,208,952

13 Commitments:

The Company has entered into various contracts for the rental of offices and warehouse rent in both Canada and Mexico. The following table summarizes the Company's total annual obligations under this agreement as at June 30, 2023:

2023	$	33,879
2024	$	28,733

14 Financial Instruments and Financial Risk Management:

The Company's financial instruments include cash and cash equivalents, receivable and advances, marketable securities, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity and due to the insignificant carrying values of long-term financial instruments except for marketable securities, which are measured at fair value through other comprehensive income at each reporting period end.

14 Financial Instruments and Financial Risk Management *(continued)*:

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these consolidated interim financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and receivables. The Company maintains its cash with high-credit quality financial institutions The Company's accounts receivable relates to receivables from exploration partners who are earning a right to the Company's property via earn-in option agreements, Goods and Services Tax input tax credits and IVA credits (Mexican Value Added Tax refunds) from the Mexican Government. Accordingly, the Company views credit risk on accounts receivable as minimal.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through private equity placements.

The Company anticipates it will have adequate liquidity to fund its financial liabilities.

As at June 30, 2023, the Company's liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year.

(c) Market risk:

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian dollar, the United States dollar and the Mexican Peso.

14 Financial Instruments and Financial Risk Management *(continued)*:

The Company's transactions are denominated in Canadian dollars, United States dollars and the Mexican Peso. The Company has not entered into any arrangements to hedge currency risk but does maintain cash balances within each currency. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

The balances denominated in foreign currency are as follows:

	June 30, 2023	December 31, 2022
	US$	US$
Cash and cash equivalents	**101,867**	49,999
Trade accounts payable and accrued liabilities	**25,384**	16,453
	Mexican Peso	Mexican Peso
Cash and cash equivalents	**799,539**	5,164,829
Receivables and advances	**429,593**	73,284
Trade accounts payable and accrued liabilities	**860,866**	933,226

The Company has completed a sensitivity analysis to estimate the impact of the change in the foreign exchange rates on net loss for the period. The result of the sensitivity analysis shows a change in +/- 10% in the US Dollar and Mexican Peso exchange rate could have an collective impact of approximately +/- $12,975. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

(ii) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. The Company is exposed to the price volatilities for precious and base metals that could significantly impact its future operating cash flow. As part of its routine activities, management is closely monitoring the trend of international metal prices.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and cash equivalents is limited because of their short-term investment nature. A variable rate of interest is earned on cash and cash equivalents, changes in market interest rates at the period-end would not have a material impact on the Company's consolidated interim financial statements.

(Expressed in Canadian dollars)

14 Financial Instruments and Financial Risk Management *(continued)*:

d) Fair value of financial instruments

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

June 30, 2023		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	2,068,524	$	-	$	-	$	2,068,524
December 31, 2022		Level 1		Level 2		Level 3		Total
Marketable securities	$	2,947,010	$	-	$	320,527	$	3,267,537

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has been no change between levels during the period. The Company's carrying values of receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

15 Capital Management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the development of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure.

The Company's capital structure includes working capital and shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the development of its mineral properties, the Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees enter into joint venture arrangements or dispose of mineral properties.

The Company's investment policy is to hold cash in interest bearing, Schedule 1 bank accounts and highly liquid short-term interest-bearing investments, with maturities of one year or less which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the six months ended June 30, 2023.