KOOTENAY SILVER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended

December 31, 2016

and

December 31, 2015

(Expressed in Canadian dollars)

Management's Responsibility

To the Shareholders of Kootenay Silver Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of Kootenay Silver Inc. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of Kootenay Silver Inc.'s external auditors.

We draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 28, 2017

"James McDonald"
James McDonald
Chief Executive Officer

"Raj Kang"
Rajwant Kang
Chief Financial Officer

MNP LLP

Independent Auditors' Report

To the Shareholders of Kootenay Silver Inc.:

We have audited the accompanying consolidated financial statements of Kootenay Silver Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss, comprehensive loss(income), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kootenay Silver Inc. and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of these consolidated financial statements, which states that Kootenay Silver Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Kootenay Silver Inc. to continue as a going concern.

MNP LLP

Vancouver, British Columbia
April 28, 2017

Chartered Professional Accountants

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CONSOLIDATED FINANCIAL STATEMENTS

KOOTENAY SILVER INC.
(Expressed in Canadian dollars)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		December 31, 2016		December 31, 2015
ASSETS				
Current:				
Cash and cash equivalents	**$**	**5,789,615**	$	730,682
Receivables and advances (Note 9, 12)		**1,193,031**		386,764
Prepaid expenses		**81,080**		113,432
Marketable securities (Note 5)		**482,290**		238,890
		7,546,016		1,469,768
Non-current assets:				
Fixed assets (Note 6)		**974,537**		190,141
Advances and deposits		**113,041**		89,977
Mineral properties (Note 4, 7)		**68,019,145**		38,286,702
Total assets	**$**	**76,652,739**	$	40,036,588
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities (Note 12)	**$**	**491,629**	$	488,033
Current portion of termination benefit liability (Note 4)		**237,538**		-
		729,167		488,033
Long-term liabilities:				
Non-current portion of termination benefit liability (Note 4)		**144,665**		-
Total liabilities		**873,832**		488,033
Shareholders' equity:				
Share capital (Note 8)		**80,861,278**		50,397,700
Reserves (Note 8)		**28,565,345**		19,886,206
Accumulated other comprehensive loss (Exhibit 4)		**5,491,942**		4,783,667
Deficit		**(39,139,658)**		(35,519,018)
Total shareholders' equity		**75,778,907**		39,548,555
Total liabilities and shareholders' equity	**$**	**76,652,739**	$	40,036,588

Approved on Behalf of the Board:

"James McDonald"
Director

"Jon Morda"
Director

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED STATEMENTS OF LOSS

Exhibit 2

	Year ended December 31,	
	2016	2015
General and administrative expenses		
Depreciation (Note 6)	**$ 46,000**	$ 54,825
Office and general (Note 12)	**1,427,048**	1,189,770
Management fees (Note 12)	**389,000**	359,000
Share based payments (Note 8)	**69,386**	447,343
Professional fees	**602,786**	364,846
Bad debt expense	**38,192**	-
Regulatory and filing fees	**81,203**	46,330
Rent	**90,443**	90,910
Loss before exploration and other Items	**2,744,058**	2,553,024
Exploration		
Mineral property investigation (Note 7)	**348,449**	118,949
Impairment of mineral properties (Note 7)	**65,837**	271,919
Mining exploration refund on previously impaired properties (Note 7)	**(76,403)**	-
	337,883	390,868
Other Items		
Foreign exchange gain	**(71,163)**	(113,777)
Impairment of equipment	**-**	266
Termination benefit allowance (Note 4)	**674,668**	-
Gain on sale marketable securities	**-**	(12,000)
Impairment of marketable securities (Note 5)	**-**	729,580
Finance income	**(64,806)**	(19,570)
	538,699	584,499
Loss for the year	**$ 3,620,640**	**$** 3,528,391
Basic and diluted loss per share (Note 8)	**$ (0.025)**	$ (0.046)
Weighted average number of common shares outstanding	**142,590,488**	76,336,958

\- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS/(INCOME)

Exhibit 3

		Year ended December 31,		
		2016		2015
Loss for the year	**$**	**3,620,640**	$	3,528,391
Other comprehensive income				
Unrealized income on available-for-sale financial assets arising during the year		**(223,400)**		(16,075)
Reclassification adjustment for losses included in the consolidated statements of loss		**-**		(729,580)
Foreign currency translation differences of foreign operations		**(484,875)**		(4,754,142)
Total other comprehensive income		**(708,275)**		(5,499,797)
Comprehensive loss (income) for the year	**$**	**2,912,365**	$	(1,971,406)

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED 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, 2014	72,230,683	$	48,935,618	$	18,703,382	$	(716,130)	$	(31,990,627)	$	34,932,243
Shares issued, net of issuance costs	6,870,714		1,416,795		659,868		-		-		2,076,663
Acquisition of mineral properties	320,000		120,900		-		-		-		120,900
Share based payment	-		-		447,343		-		-		447,343
Warrant expiration date amendment	-		(75,613)		75,613		-		-		-
Unrealized gain on available-for-sale financial assets arising during the period	-		-		-		16,075		-		16,075
Reclassification adjustment for losses on available-for-sale	-		-		-		729,580		-		729,580
Foreign currency translation differences of foreign operations	-		-		-		4,754,142		-		4,754,142
Loss for the year	-		-		-		-		(3,528,391)		(3,528,391)
Balance, December 31, 2015	79,421,397	$	50,397,700	$	19,886,206	$	4,783,667	$	(35,519,018)	$	39,548,555
Shares issued, net of issuance costs	30,957,749		7,772,605		1,132,306		-		-		8,904,911
Acquisition of mineral properties	250,000		96,700		-		-		-		96,700
Shares issued on acquisition of Northair Silver Corp. (Note 4)	53,909,261		20,215,973		7,007,770		-		-		27,223,743
Shares issued on NSR acquisition from Coeur Capital (Note 4)	9,629,091		2,648,000		-		-		-		2,648,000
Shares issued termination benefit allowance (Note 4)	337,228		134,891		-		-		-		134,891
Exercise of share purchase warrant	150		82		-		-		-		82
Exercise of share purchase option	192,500		109,448		(44,444)		-		-		65,004
Warrant expiration date amendment	-		(514,121)		514,121		-		-		-
Share based payment	-		-		69,386		-		-		69,386
Unrealized gain on available-for-sale financial assets arising during the period	-		-		-		223,400		-		223,400
Foreign currency translation differences of foreign operations	-		-		-		484,875		-		484,875
Loss for the period	-		-		-		-		(3,620,640)		(3,620,640)
Balance, December 31, 2016	174,697,376	$	80,861,278	$	28,565,345	$	5,491,942	$	(39,139,658)	$	75,778,907

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Exhibit 5

	Year ended December 31,	
	2016	2015
Cash flows from operating activities		
Loss for the year	**$ (3,620,640)**	$ (3,528,391)
Add items not involving cash:		
Share based payment	**69,386**	447,343
Gain from marketable securities	**-**	(12,000)
Bad debt expense	**4,190**	-
Impairment of mineral properties	**65,837**	271,919
Impairment in marketable securities	**40,000**	729,580
Impairment of equipment	**-**	266
Depreciation	**46,000**	54,825
	(3,395,227)	(2,036,458)
Changes in non-cash working capital balances:		
Receivable and advances	**(734,125)**	410,347
Prepaid expenses	**143,694**	(43,347)
Accounts payable and accrued liabilities	**527,867**	66,968
	(3,457,791)	(1,602,490)
Cash flows from financing activity		
Shares issued, net of share issuance costs	**8,997,670**	2,076,663
Cash flows used in investing activities		
Investment in mineral properties	**(2,425,228)**	(1,992,961)
Investment in Fixed assets	**(28,200)**	(4,550)
Reclamation deposits	**-**	19,500
Increase in exploration advance	**-**	(3,477)
Cash received from Northair Silver acquisition (Note 4)	**1,463,298**	-
Mineral property options payments received	**341,811**	-
Receipt of mining exploration refund	**216,726**	-
	(431,593)	(1,981,488)
Effect of foreign exchange rate changes on cash	**(49,353)**	(122,825)
Net change in cash and cash equivalents	**5,058,933**	(1,630,140)
Cash and cash equivalents, beginning of the year	**730,682**	2,360,822
Cash and cash equivalents, end of the year	**$ 5,789,615**	$ 730,682

Supplemental disclosure of cash and non-cash activities (Note 11)

- see accompanying notes -

(Expressed in Canadian dollars)

1 Reporting Entity:

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 North America, with the objective of identifying mineralized deposits economically worthy of subsequent development, mining or sale.

Going Concern

These consolidated 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. During the year ended December 31, 2016, the Company raised aggregate gross proceeds of $9,582,747 from the closing of private placements (Note 8). 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 on terms satisfactory to the Company, some or all planned activities may be cancelled or postponed.

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 and Canada, as well as other property interests.

These consolidated 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 financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

	December 31, 2016	December 31, 2015
Deficit	**$ 39,139,658**	$ 35,519,018
Working capital	**$ 6,816,849**	$ 981,735

2 Basis of Presentation:

Statement of Compliance

These consolidated 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 financial statements are authorized for issuance by the Board of Directors on April 28, 2017.

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 and Kootenay Resources Inc. The functional currency of wholly owned subsidiaries of the Company, Minera JM S.A. de C.V., Grupo Northair de Mexico S.A. de C.V. and Kootenay Gold (US) Corp., 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 (income).

3 Significant Accounting Policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The significant accounting policies adopted by the Company are as follows:

Basis of measurement

These consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kootenay Resources Inc., Northair Silver Corp., both of which are incorporated in Canada, Minera JM S.A. de C.V., Servicios de Exploraciones Sonora, S.A. de C.V. and Grupo Northair de Mexico S.A. de C.V. all of which are incorporated in Mexico and Kootenay Gold (US) Corp., a company incorporated in the US.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated in full upon consolidation.

3 Significant Accounting Policies *(continued):*

Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and revenues and expenses for the year. By their nature, these estimates and judgments are subject to uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgements.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

(i) Exploration and evaluation assets

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicate the carrying value may be impaired, at which time an impairment loss is recorded.

(ii) Decommissioning liabilities

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation, as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

(iii) Share based payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 8 and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project, which will impact the consolidated financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

(iv) Taxes

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

3 Significant Accounting Policies *(continued)***:**

Critical accounting estimates and judgements (continued)

Significant judgments used in the preparation of these consolidated financial statements include, but are not limited to the:

(i) assessment of the Company's ability to continue as a going concern;
(ii) assessment of the acquisition of Northair Silver Corp. as a business combination or asset acquisition;
(iii) determination of functional currency; and
(iv) evaluation of impairment associated with marketable securities.

Foreign currency transactions

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of loss.

Cash and cash equivalents

Cash is comprised of cash on hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Mineral property interests

Mineral properties corresponded to acquired interests in mining exploration claim tenures and concessions, which include the right to explore, mine, extract and sell all minerals from such claims.

All pre-exploration costs, i.e. costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest, are expensed as incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized in respect of each identifiable area of interest until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are carried at historical cost, less any impairment losses recognized.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable for an area of interest, the Company stops capitalizing exploration and evaluation costs for that area, tests recognized exploration and evaluation assets for impairment and reclassifies any unimpaired exploration and evaluation assets either as tangible or intangible mine development costs according to the nature of the assets.

The amounts shown for mineral properties do not necessarily represent present or future values. The recoverability of mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permits necessary to complete the development and future profitable production, or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title that are not in the public domain or the title registry office and/or may be affected by undetected defects.

3 Significant Accounting Policies *(continued)***:**

Fixed assets

Fixed assets are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. Depreciation is recognized using the declining balance method at the following annual rates:

Office furniture	20%
Computer equipment	30%
Exploration equipment	30%
Vehicles	30%

For leasehold improvements, the Company recognized depreciation using the straight-line method over the term of the lease. For the year of acquisition, the rate is one-half of the above. The Company reviews the carrying values of its property and equipment for impairment at each reporting period. If the carrying value exceeds the amount recoverable, a write-down to their fair value is charged to the consolidated statement of loss.

The Company does not record depreciation on land as it has an unlimited useful life.

Decommissioning liabilities

The Company recognizes the present value of estimated costs of legal and constructive obligations for decommissioning liabilities in the year in which it is incurred or when there is a legal or constructive obligation. The fair value of asset retirement obligation is recorded as a liability and a corresponding increase in mineral properties. Changes in the liability for decommissioning liabilities due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of loss. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. Actual costs incurred upon settlement are charged against the decommissioning liabilities. Any difference between the actual costs and the recorded liability is recognized as a gain or loss in earnings in the year in which the settlement occurs. Estimated future site restoration costs for the Company's mineral property interests are considered not significant for the years ended December 31, 2016 and 2015.

Marketable securities

Marketable securities are recorded at market value by reference to published price quotations in an active market, and are written down when significant or prolonged decline in fair value has occurred by the statement of financial position date, or when no other means exist to independently confirm the recorded value is reasonable. Upon confirmation of either event, the cumulative loss that was recognized in other comprehensive income is reclassified to the statement of loss. Realized gains or losses on the sale of marketable securities are also charged through to the statement of loss which are determined based on specific cost basis. Unrealized gains or losses for available-for-sale securities are recorded at market value and included in other comprehensive loss (income) at each reporting period.

Impairment

i) Financial assets

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3 Significant Accounting Policies *(continued)***:**

Impairment (continued)

ii) Non-financial assets

The carrying amounts of mineral properties are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances applies:

- Exploration rights have / will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities discovered and exploration and evaluation activities will be discontinued; or
- Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale.

If any such indication exists, then the mineral properties' recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The level identified by the group for the purposes of testing exploration and evaluation assets for impairment corresponds to each mining property.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Share capital

Common shares are classified as equity. The Company records proceeds from share issuances net of share issuance costs. Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the shares are issued.

3 Significant Accounting Policies *(continued)***:**

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit (or loss) attributable to the common shareholders of the Company divided by the weighted average number of common shares outstanding during the year. The diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year.

The calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Warrants

Warrants are classified as equity as they are derivatives over the Company's own equity that will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company's own equity instruments.

When shares and warrants are issued at the same time, the proceeds are allocated first to warrants issued, according to their fair value using the Black-Scholes pricing model, the residual value being allocated to shares.

Share-based payments

The grant date fair value of share-based payment awards granted to employees, officers, consultants and directors is recognized as a share-based payment expense, with a corresponding increase in reserves, over the period during which the employees, officers, consultants and directors unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Financial instruments

All financial instruments are recognised, initially, at fair value. The Company classifies its financial assets as available-for-sale, fair value through profit or loss, or loans and receivables while the Company classifies its financial liabilities as other financial liabilities (measured at amortized cost using the effective interest method). Financial assets, loans and receivables and other financial liabilities other than those designated as fair value through profit or loss, are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), unless an unrealized loss is considered to be significant or prolonged in which case the loss is recorded on the consolidated statements of loss for the year. Instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized on the consolidated statements of loss.

Transaction costs on financial assets and liabilities classified other than fair value through profit or loss are treated as part of the investment cost.

3 Significant Accounting Policies *(continued)***:**

Financial instruments (continued)

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets. The Company has classified its financial assets and liabilities as follows:

Fair value through profit or loss	**Loans and receivables**	**Available-for-sale**	**Other financial liabilities**
Cash and cash equivalents	Receivable and advances	Marketable securities	Accounts payable and accrued liabilities, Termination liability benefits

Comprehensive income (loss)

Other comprehensive income (loss) represents the change in net shareholders' equity for the year that arises from unrealized gains and losses on financial assets classified as available-for-sale and foreign currency translation adjustments on foreign subsidiaries. Amounts included in other comprehensive income are shown net of tax. Cumulative changes in other comprehensive income are included in accumulated other comprehensive loss which is presented as a separate category in shareholders' equity.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3 Significant Accounting Policies *(continued)***:**

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Results of all operating segments' are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under two geographic regions, being Canada and Mexico.

Current and future accounting standards

There were no new accounting standards adopted during the year ended December 31, 2016.

Standards issued or amended but not yet effective:
The following amendments to existing standards were issued by the International Accounting Standards Board ("IASB") and are effective for annual periods beginning on or after January 1, 2017. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for periods beginning on or after January 1, 2018, with earlier adopted permitted. The Company is currently evaluated the impact of adopted IFRS 15 on the consolidated financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*, and other lease related interpretations. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted only in conjunction with IFRS 15. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 9, *Financial Instruments* ("IFRS 9") replaces IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety to reduce the complexity in the classification and measurement of financial instruments with the establishment of three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and FVTPL. The completed version of IFRS 9 includes classification and measurement, impairment and hedge accounting requirements and is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

4 Acquisition of Northair Silver Corp.:

On April 21, 2016, the Company completed the acquisition of all the outstanding common shares of Northair Silver Corp. ("Northair") on the basis of 0.35 common shares in the capital of the Company plus 0.15 common share purchase warrant of the Company for each Northair share. The warrants have a five-year term from closing and have an exercise price of $0.55. The warrants are listed on the TSX Venture Exchange ("TSX-V") under the symbol "KTN.WT". Additionally, the Company assumed all warrants and options of Northair that were outstanding immediately before the acquisition under the same basis of 0.35 for each whole warrant or option. The acquisition was carried out by way of a court-approved plan of arrangement under the Business Corporations Act (British Columbia). Upon closing, Northair and its Mexican subsidiary, Grupo Northair de Mexico S.A. de C.V. ("Grupo Northair") which holds the La Cigarra silver project, located in Chihuahua, Mexico, became wholly-owned subsidiaries of the Company.

(Expressed in Canadian dollars)

4 Acquisition of Northair Silver Corp. *(continued)*:

The acquisition of Northair was deemed an asset acquisition for accounting purposes.

Consideration paid:

Fair value of 53,909,261 common shares issued	20,215,973
Fair value of 23,103,969 common shares purchase warrants	4,988,147
Fair value of 3,862,250 replacement options	631,126
Fair value of 13,998,250 replacement warrants	1,388,497
Transaction costs incurred by the Company	472,111
Total consideration paid	**27,695,854**

The fair value of identifiable assets acquired and liabilities assumed from Northair were as follows:

Cash and cash equivalents	1,483,298
Receivables	135,879
Prepaid expenses	81,551
Fixed assets	803,351
Mineral properties	25,265,347
Accounts payable and accrued liabilities	(73,572)
Net identifiable assets acquired and liabilities assumed	**27,695,854**

The Company expensed $674,688 for the allowance of termination benefits related to the certain individuals under management consulting contracts with Northair. Such agreements did not meet the criteria of capitalization as they were deemed post-combination services and were expensed upon completion of the acquisition. As at December 31, 2016, $237,538 (2015 - $nil) is due within the next 12 months and the remaining balance of $144,665 (2015 - $nil) is due thereafter.

5 Marketable Securities:

As at December 31, 2016, the fair value of marketable securities held is $482,290 (2015 – $238,890). During the year ended December 31, 2016, the Company recorded a gain to other comprehensive income of $223,400 (2015 – $16,075) for fair value adjustments to marketable securities and $nil (2015 - $729,580) for permanent impairment to marketable securities.

(Expressed in Canadian dollars)

6 Fixed Assets:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Land	Total
Cost						
Balance December 31, 2014	232,691	66,485	216,142	60,321	-	575,639
Additions	-	-	4,550	-	-	4,550
Impaired	-	-	(2,659)	-	-	(2,659)
Effect of foreign exchange	58,015	-	31,143	-	-	89,158
Balance December 31, 2015	290,706	66,485	249,176	60,321	-	666,688
Addition	31,455	-	1,459	-	803,304	836,218
Effect of foreign exchange	(10,258)	-	(5,693)	-	-	(15,951)
Balance December 31, 2016	**311,903**	**66,485**	**244,942**	**60,321**	**803,304**	**1,486,955**
Accumulated Depreciation						
Balance December 31, 2014	187,238	41,484	111,044	18,001	-	357,767
Depreciation for year	19,382	4,662	18,434	12,347	-	54,825
Effect of foreign exchange	50,983	5	12,967	-	-	63,955
Balance December 31, 2015	257,603	46,151	142,445	30,348	-	476,547
Depreciation for year	16,560	3,920	14,021	11,499	-	46,000
Effect of foreign exchange	(8,349)	(190)	(1,590)	-	-	(10,129)
Balance December 31, 2016	**265,814**	**49,881**	**154,876**	**41,847**	**-**	**512,418**
Carrying value December 31, 2015	**33,103**	**20,334**	**106,731**	**29,373**	**-**	**190,141**
Carrying value December 31, 2016	**46,089**	**16,604**	**90,066**	**18,474**	**803,304**	**974,537**

(Expressed in Canadian dollars)

7 Mineral Properties:

	MEXICO						CANADA					
	Promontorio	La Cigarra	Sonora Anomalies	Cervantes*	San Diego	Mexico Total	Nechako Region	Silver Fox*	Other	Canada Total	2016 Total	2015 Total
	$	$	$	$	$	$	$	$	$	$	$	$
Acquisition Costs												
Balance, beginning	3,658,642	-	591,681	-	94,485	4,344,808	153,380	40,250	1,314,485	1,508,115	5,852,923	5,629,727
Incurred	-	30,203,949	-	-	54,383	30,258,332	10,500	10,500	50,700	71,700	30,330,032	223,196
Balance, ending	3,658,642	30,203,949	591,681	-	148,868	34,603,140	163,880	50,750	1,365,185	1,579,815	36,182,955	5,852,923
Exploration Expenditures												
Balance, beginning	31,841,520[1]	-	6,520,166	183,816	104,921	38,650,423[1]	481,707	703,346	5,710,860	6,895,913	45,546,336[1]	44,275,874[1]
Assaying and Lab	4,344	129,186	854	-	-	134,384	5,758	10,748	1,984	18,490	152,874	172,784
Camp Costs	19,122	99,451	-	8,019	-	126,592	-	-	-	-	126,592	194,675
Drafting	17,967	22,259	1,764	-	-	41,990	1400	23,688	1,050	26,138	68,128	129,727
Drilling	714	641,414	-	-	-	642,128	-	-	-	-	642,128	487,495
Geological mapping	3,598	65,992	464	-	-	70,054	47	59,757	543	60,347	130,401	98,587
Geophysics	-	-	-	-	-	-	-	46,743	13,191	59,934	59,934	-
Maintenance	42,131	-	38,574	2,602	-	83,307	3,781	29,091	17,230	50,102	133,409	314,717
Miscellaneous	19,689	-	-	-	-	19,689	-	-	-	-	19,689	24,071
Geological Consulting and Prospecting	60,406	275,124	49,871	6,674	4,273	396,348	24,199	69,782	59,150	153,131	549,479	663,378
Rock Sampling	22,750	-	3,000	-	-	25,750	-	-	-	-	25,750	72,000
Metallurgical testing	-	-	-		-	-	-	-	-	-	-	29,439
Incurred	190,721	1,233,426	94,527	17,295	4,273	1,540,242	35,185	239,809	93,148	368,142	1,908,384	2,186,873
Balance, ending	32,032,241	1,233,426	6,614,693	201,111	109,194	40,190,695	516,892	943,155	5,804,008	7,264,055	47,454,720	46,462,747
Total property balance	35,690,883	31,437,375	7,206,374	201,111	258,062	74,793,805	680,772	993,905	7,169,193	8,843,870	83,637,675	52,315,670
Recovery of costs	-	-	(3,466,284)	(59,746)	(106,902)	(3,632,932)	-	(923,255)	(2,839,426)	(3,762,681)	(7,395,613)	(6,356,350)
Mineral exploration refund	-	-	-	-	-	-	(78,344)	(70,650)	(236,551)	(385,545)	(385,545)	(212,707)
Proceeds from sale	-	-	-	-	-	-	-	-	(230,000)	(230,000)	(230,000)	(230,000)
Option payment received	(335,675)	-	(8,000)	(44,555)	-	(388,230)	-	-	(121,000)	(121,000)	(509,230)	(142,218)
Impaired or disposed	(537,744)	-	(2,631,194)	(14,034)	-	(3,182,972)	(555,187)	-	(3,359,983)	(3,915,170)	(7,098,142)	(7,087,693)
Carrying value mineral properties	34,817,464	31,437,375	1,100,896	82,776	151,160	67,589,671	47,241	-	382,233	429,474	68,019,145	38,286,702

[1]Includes foreign exchange related to translation of foreign operations
*Earn-in option agreement

7 Mineral Properties *(continued)***:**

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 (Note 4).

The La Cigarra project is 100% owned by the Company subject to a 1% net smelter royalty, and the Company has assumed the obligations of Northair under an agreement with DFX Exploration Ltd. (the “DFX Agreement”). Pursuant to the terms of the DFX Agreement, DFX would have been entitled to be paid an upfront bonus of $0.10 per silver ounce equivalent up to a maximum of 50 million ounces if prior to September 30, 2016, at least 50 million silver equivalent ounces had been estimated to exist on Parral 2 in a NI 43-101 technical report prepared by the Company. If silver equivalent ounces are produced from Parral 2, DFX will be paid $0.10 per silver equivalent ounce from production to a maximum of (i) 135 million ounces, in the event that DFX received the upfront bonus or (ii) 185 million ounces if the upfront bonus was not applicable.

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.

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.

On March 4, 2016, the Company formalized and closed an option agreement with Pan American Silver Corporation (“Pan American”) and its wholly owned Mexican subsidiary Compania Minera Dolores S.A. de C.V. (“Dolores") whereby the Company and MJM granted Dolores the right to earn a 75% interest in MJM’s Promontorio Mineral Belt silver properties (including the Promontorio deposit and La Negra discovery). The terms of the agreement allow Dolores to earn a 75% interest in consideration for: (a) an aggregate total of US$8,000,000 of exploration and development expenditures on MJM’s properties in the Promontorio Mineral Belt over a four-year period; and (b) cash payments totaling US$8,050,000 to MJM (US$460,000 was received subsequent to December 31, 2016), with US$250,000 received on closing and the balance over a four-year period; and a carried interest to production.

Upon exercise of the option, the parties will enter into a joint venture pursuant to which the Company will retain a 25% carried interest to production. Pan American will have a preferred capital recovery period after the commencement of production, under which the Company will receive 40% of distributions on its 25% retained interest in the joint venture until Pan American fully recovers its invested capital, which will include construction and development capital, plus any additional expenditures incurred after the date on which Dolores exercises the option.

7 Mineral Properties *(continued)***:**

Santa Lucia - Southern Sonora State, Mexico

On May 1, 2006, amended September 27, 2006, the Company entered into an agreement and acquired a 100% interest in two mineral claims comprised of 9,350 hectares. During the year ended December 31, 2014, the Company abandoned one of the claims totalling 9,330 hectares. A 2% net smelter return is payable on the remaining claim. The Company may purchase 50% of the net smelter return for US$1,000,000 and has the right of first refusal on the remaining claim.

San Diego – Northwest Sonora, Mexico

On April 8, 2014, the Company entered into an option agreement to acquire an undivided interest in the San Diego concession. Under the terms of the agreement, the Company must issue 100,000 common shares of the Company; and make total cash payments of US$480,000 within a four-year period. As at December 31, 2016, the Company has made total cash payments of US$40,000 and has issued 100,000 shares with a fair value of $45,000. A 2% net smelter return is payable on the San Diego concession, which can be purchased by the Company for US$750,000 for each percentile.

During the year ended December 31, 2015, the Company announced that it had entered into an option agreement through its wholly owned Mexican subsidiary, MJM, with Oro de Altar ("ODA"), a wholly owned Mexican subsidiary of Alamos Gold. The option allowed ODA to earn up to 100% interest in the San Diego property. During the year ended December 31, 2016, the Company received notice of termination from Alamos Gold.

Unless specifically stated otherwise, all Sonora Concessions have been staked by the Company directly.

Cervantes – Sonora State, Mexico

On July 25, 2015, the Company entered into an option agreement with Aztec Metals Corp. ("Aztec"), whereby the Company granted Aztec the right to earn up to a 100% interest in the Cervantes Gold/Copper project. The terms of the agreement allow Aztec to earn a 65% interest by: spending an aggregate total of US$1.5 million in exploration expenditures by July 25, 2019; paying an aggregate total of US$150,000 in staged payments to the Company by July 25, 2019; and issuing an aggregated total of 1,000,000 common shares in staged payments on each anniversary to the Company, with final issuance payable 60 days after the fourth anniversary.

Upon earning the initial 65% interest and within 60 days of such date, Aztec will have the right to elect and acquire the remaining 35% interest (the "Second Option") by completing a preliminary economic assessment report ("Scoping Study") by the fifth anniversary date (July 25, 2020), paying US$5.00 per gold or gold equivalent ounce of estimated recoverable, payable gold or gold equivalent ounce of the contained metal for the measured, indicated and inferred resources based on the Scoping Study. On acquisition by Aztec of 100% interest, Kootenay will receive a 2.5% net smelter royalty. If Aztec decide not to exercise the Second Option, a joint venture will be formed to develop the project. Effective September 30, 2016, the obligations of the option agreement were assigned to Aztec Minerals Corp. from Aztec.

7 Mineral Properties *(continued)***:**

Copley Property – Nechako Plateau, British Columbia

On February 23, 2010, the Company entered into an option agreement whereby it was granted the right to earn a 100% undivided interest in 10 mineral tenures totaling approximately 2,927 hectares collectively named as the Copley Property. Under the agreement the Company must make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. As at December 31, 2016, the Company has issued 130,000 shares with a fair value of $84,400 and has made the total cash payments due under the agreement.

Silver Fox - Southern British Columbia

On September 29, 2015, the Company entered into an option agreement with a wholly-owned subsidiary of Antofagasta plc (“Antofagasta”) granting Antofagasta the option to earn up to an 80% interest in the Silver Fox property located in South Eastern British Columbia. The terms of the agreement grant Antofagasta the right to earn a 65% interest ("First Option") by funding or incurring an aggregate total of US$2.5 million (the "First Option Expenditures") in exploration expenditures on or before September 29, 2021, amended from September 29, 2019. Antofagasta has the right to accelerate the First Option Expenditures. Antofagasta will have the right to acquire a further 15% interest ("Second Option") by incurring an additional aggregate total US$1.65 million in exploration expenditures within two years of the First Option exercise date. If Antofagasta decides not to exercise the Second Option, a joint venture based on a 65/35% interest will form under the Agreement in relation to the property.

Under the terms of the Underlying Option Agreement, the Company can acquire a 100% interest in Silver Fox by issuing 100,000 common shares to Kennedy by July 3, 2018 (the "Underlying Option") of which 50,000 common shares have been issued with a fair value of $18,250 including 25,000 common shares with a fair value of $10,500 issued during the year ended December 31, 2016. The Silver Fox is subject to a 2.0% net smelter returns royalty in favour of Kennedy (the "Underlying Royalty"). The Underlying Royalty is subject to a purchase right in favour of the Company, exercisable by the Company by paying $500,000 for each 0.5% of the Underlying Royalty. Under the terms of the Agreement, the Company is obligated to exercise the Underlying Option prior to the exercise by Antofagasta of the First Option.

The Fox and Two Times Fred Properties – Nechako Plateau, British Columbia

On July 8, 2014, the Company entered into a letter agreement with Theia Resources Ltd. (“Theia”) granting the right to earn a 60% undivided interest in the Fox and Two Times Fred Properties (the “Properties”). Under the terms of the agreement, Theia must issue an aggregate total of 750,000 common shares of Theia to the Company; and finance an aggregate $2,500,000 of exploration expenditures on the Properties within a five-year period.

The Two Times Fred property was being optioned to the Company effective July 1, 2014, pursuant to a grubstake agreement. To maintain its option, the Company must make total cash payments of $80,000; issue an aggregate total of 230,000 and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has made total cash payments of $35,000 and issued 115,000 shares with a fair value of 37,950, included in the respective amounts are cash payments of $15,000 and 40,000 shares with a fair value of $16,800 issued during the year ended December 31, 2016.

7 Mineral Properties *(continued)***:**

The Fox and Two Times Fred Properties – Nechako Plateau, British Columbia (continued)

During the year ended December 31, 2011, the Company optioned the Fox property. To maintain its option, the Company is required to make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has fulfilled the required cash payments and during the year ended December 31, 2016 issued the final share payment of 35,000 shares with a fair value of $8,400.

During the year ended December 31, 2015, the Company exercised its option under the Kennedy grubstake agreement subject to the issuance of 100,000 shares over three years. The 2% NSR can be purchased by the Company for $500,000 per each one-half (0.5%) percentile. The Company has issued 100,000 shares with a fair value of $36,500, including 50,000 shares with a fair value of $21,000 issued during the year ended December 31, 2016.

Property Investigation and Impairment

During the year ended December 31, 2016, the Company expended $348,449 (2015 - $118,949) related to other property investigation expense and recorded an impairment to mineral properties of $65,837 (2015 - $271,919), which is related to mineral properties located in both Mexico and Canada. Once the Company has made its evaluations, the properties will be either be abandoned or acquired under the terms of the Grubstake Agreements.

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.

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.

On July 28, 2016, the Company closed a brokered private placement (the "Offering") for 12,937,500 units (the "Units") at a price of $0.40 per Unit (the "Offering Price") with Haywood Securities Inc. for gross proceeds of $5,175,000. The Company concurrently closed on a non-brokered private placement for gross process of $854,316 for 2,135,790 Units. Each Unit in the Offering and non-brokered private placement consisted of one common share and one-quarter of one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one common share (a "Warrant Share") at an exercise price per Warrant Share of $0.55 until April 21, 2021. The Warrants have identical terms to the 23,103,969 listed warrants (the "Listed Warrants") of the Company currently outstanding and trading on the TSX-V under the ticker 'KTN.WT'. The Company issued compensation warrants to Haywood in connection with the Offering, exercisable to acquire up to 406,875 common shares of the Company at an exercise price of $0.55 per share until July 28, 2017.

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)***:**

On April 19, 2016, the Company issued 9,629,091 shares with a fair value of $2,648,000 to Coeur Capital for the NSR Acquisition on the La Cigarra silver project (Note 7) and on April 21, 2016 issued 53,909,261 shares and 23,103,969 share purchase warrants upon acquisition of Northair (Note 4).

On March 4, 2016, the Company completed a non-brokered private placement for a total of 15,884,459 common shares at a purchase price of $0.22 per share for total gross proceeds of $3,553,431 of which Pan American subscribed for 6,793,550 common shares of the Company to hold approximately 10% of the Company's issued and outstanding shares. Pan American has the right to participate in any future equity offerings of the Company to maintain its pro-rata share percentage interest.

During the year ended December 31, 2015, the Company completed a non-brokered private placement of 4,386,500 units units at a purchase price of $0.30 per unit for gross proceeds of $1,315,950. Each unit consists of one common share of the Company and one transferable share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.55. The Company issued 96,000 units as a finders' fee in connection with the private placement with each units consisting of one common share and one non-transferable common share purchase warrant, expiring August 10, 2017.

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, January 1, 2015	16,421,833	$ 0.84	5,142,000	$ 0.89
Granted	6,870,714	0.57	2,485,000	0.35
Expired/cancelled	(3,125,000)	1.08	(305,000)	0.81
Outstanding, December 31, 2015	20,167,547	$ 0.71	7,322,000	$ 0.71
Expired/cancelled	(6,050,000)	1.05	(2,054,000)	0.96
Granted	27,279,166	0.55	-	-
Exercised	(150)	0.55	(192,500)	0.34
Assumed upon Northair transaction	13,998,250	0.71	3,862,250	0.63
Outstanding, December 31, 2016	**55,394,813**	**$ 0.59**	**8,937,750**	**$ 0.62**

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)***:**

Warrants

As at December 31, 2016, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

	Number of Warrants	Exercise Price	Expiry Date
	5,443,500	0.55	January 18, 2017[(2)]
	1,803,333	0.55	February 17, 2017[(2)]
	2,388,214	0.60	February 2, 2017[(2)]
	406,875	0.55	July 28, 2017
	3,586,500	0.55	August 10, 2017
	96,000	0.55	August 10, 2017
	800,000	0.55	August 26, 2017
	13,998,250	0.71	September 5, 2017[(1)]
	26,872,141	0.55	April 22, 2021
	55,394,813		

[(1)] Assumed from the Northair acquisition.

[(2)] Expired unexercised subsequent to December 31, 2016.

The weighted average remaining life of the outstanding warrants is 2.33 years (2015 – 0.96 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 Company assumed 13,998,250 warrants which were outstanding to Northair shareholders at the acquisition ratio of 0.35:1 existing warrant outstanding. Additionally, 23,103,969 warrants were issued as part of the consideration transferred to Northair (Note 4).

During the year ended December 31, 2016, the Company amended the expiration date of 5,443,500 share purchase warrants expiring on July 18, 2016 and 1,803,333 share purchase warrants expiring on August 18, 2016 that were issued pursuant to a private placement which closed on July 18, 2014 and August 18, 2014, respectively. The expiry date of the warrants was extended for an additional six months, with 5,443,500 share purchase warrants expiring on January 18, 2017 and 1,803,333 share purchase warrants expiring on February 17, 2017. The incremental fair value associated with the extension of these warrants was $514,121 (2015 - $75,613) which was calculated using the Black Scholes pricing model. In all other respects, the terms of the warrants will remain unchanged.

The following assumptions were used for the Black-Scholes valuation of warrants issued and amended during 2016 and 2015:

	2016	2015
Risk-free interest rate	**0.57% - 0.74%**	0.39% – 0.54%
Expected life of warrants	**7 - 60 months**	12 - 24 months
Fair value per warrant issued	**$0.072 - $0.285**	$0.019 - $0.118
Annualized volatility	**82% - 98%**	87% - 101%
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.

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)***:**

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. Pursuant to the policies of the TSXV, shares issued on exercise of options are restricted from trading during the four month period subsequent to the date of grant.

For the year ended December 31, 2016, the Company did not grant any share purchase options, however the Company assumed the obligations related to the pre-existing options granted under Northair.

During the year ended December 31, 2015, the Company granted a total of 2,485,000 share purchase options to officers, directors, employees and consultants. Each share purchase option is exercisable for a period of 5 years from grant date at an exercise price of $0.35. The share purchase options vested in increments from the grant date and was fully vested in 18 months.

During the year ended December 31, 2016, share based compensation totalling $69,386 (2015 - $447,343) was expensed. As at December 31, 2016, 8,937,750 options (2015 – 6,079,500) with a weighted average exercise price of $0.62 per option (2015 - $0.79) were fully vested and exercisable.

As at December 31, 2016, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

Number of Options	Exercise Price	Expiry Date
297,500	0.80	June 13, 2017[1]
1,995,000	1.05	November 26, 2017
52,500	0.83	January 10, 2018[1]
439,250	0.63	March 4, 2018[1]
1,760,000	0.66	September 18, 2018
337,750	0.43	May 30, 2019[1]
1,050,000	0.47	September 8, 2019[1]
262,500	0.23	December 17, 2019[1]
348,250	0.23	January 26, 2020[1]
2,395,000	0.35	February 23, 2020
8,937,750		

[1] Assumed from the Northair acquisition.

The weighted average remaining life of the options is 2.08 years (2015 – 2.68 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 December 31, 2015 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)***:**

	2016	2015
Risk-free interest rate	0.67% - 0.74%	0.74%
Expected life of options	1-4 years	5 years
Fair value per option granted	\$0.069 - \$0.260	\$0.194
Annualized volatility	85% - 98%	78%
Forfeiture rate	0.00%	0.00%
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.

Loss per share

The calculation of basic loss per share for the year ended December 31, 2016 was based on the loss of \$3,620,640 (2015 - \$3,528,391) and the weighted average number of common shares outstanding of 142,590,488 (2015 – 76,336,958), respectively. The Company does not have any instruments that would give rise to a dilution effect as of December 31, 2016 and 2015. As at December 31, 2016, the Company has 8,937,750 options and 55,394,813 warrants that are anti-dilutive and thus, not included in diluted loss per share.

9 Receivables:

The Company's receivables are as follows:

	December 31, 2016	December 31, 2015
IVA/GST receivable	**\$ 381,175**	\$ 219,530
Receivable	**762,315**	154,692
Advances	**49,541**	12,542
Total	**\$ 1,193,031**	\$ 386,764

(Expressed in Canadian dollars)

10 Income Taxes:

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2016 and 2015:

		2016		2015
Income (loss) before taxes	$	(3,620,640)	$	(3,528,391)
Statutory tax rate		26.00%		26.00%
Expected income tax (recovery)		(941,366)		(917,382)
Non-deductible items		105,817		171,223
Change in tax rates		-		51,224
Foreign Tax Rate Difference		(2,625)		(12,623)
Functional currency adjustment		348,474		(72,764)
Change in deferred tax asset not recognized		489,700		780,322
Total income tax expense (recovery)	$	-	$	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes.

The unrecognized deductible temporary differences are as follows:

		2016		2015
Non-capital loss carryforwards (Canada)	$	20,469,615	$	17,529,684
Net capital loss carryforwards (Canada)		436,706		397,544
Tax losses carryforwards (Mexico)		941,733		2,073,703
Property and equipment (Canada)		182,440		177,985
Property and equipment (Mexico)		167,183		159,071
Exploration and evaluation assets (Canada)		3,514,198		5,153,459
Termination benefit liability		263,434		-
Mineral properties (Mexico)		2,407,915		2,921,929
Marketable securities - OCI (Canada)		255,681		461,081
Financing costs (Canada)		519,764		372,024
Unrecognized deductible temporary differences	$	29,158,669	$	29,246,479

(Expressed in Canadian dollars)

10 Income Taxes *(continued)*:

As at December 31, 2016, the Company has non-capital loss carryforwards for Canadian tax purposes of approximately $20,469,415 (2015: $13,633,193) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Canadian Expiration		Total
2026	$	405,178
2027		630,148
2028		1,176,346
2029		2,124,656
2030		2,320,591
2031		2,403,406
2032		2,409,531
2033		2,158,414
2034		1,882,317
2035		2,002,003
2036		2,957,025
Total	$	20,469,615

As at December 31, 2016, the Company has net capital loss carryforwards for Canadian tax purposes of approximately $436,706 (2015: $397,544) which may be carried forward indefinitely to apply against future capital gains for Canadian income tax purposes, subject to final determination by the tax authorities.

As at December 31, 2016, the Company had non-capital loss carry forwards for Mexican income tax purposes of approximately $941,733 from the Company's Mexico subsidiaries available to reduce taxable income in Mexico expiring in various years from 2024 to 2026.

Mexico Expiry		Total
2024	$	750,469
2025		5,569
2026		185,694
Total	$	941,732

11 Supplemental Disclosure of Cash and Non-Cash Activities:

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

		2016		2015
Acquisition of shares as proceeds from option of mineral property	**$**	**-**	$	(37,000)
Issuance of share capital for acquisition of mineral property interests		**96,700**		120,900
Shares issued on acquisition of Northair		**20,215,973**		-
Shares issued for the NSR acquisition from Coeur		**2,648,000**		-
Mineral property recoveries included in receivables and advances		**773,790**		71,588
Mineral property costs included in accounts payable		**47,592**		50,609

(Expressed in Canadian dollars)

12 Related Party Transactions and Balances:

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

		2016		2015
Management fees charged by companies controlled by a director and/or officers	**$**	**603,000**	$	503,000
Consulting, administrative and geological fees charged by a company with common officers		**120,000**		120,000
	$	**723,000**	$	623,000

The Company has entered into a consulting agreement dated January 1, 2008 with Makwa Exploration Ltd. for the services of James McDonald to act as the Company's President and CEO, and with Manly Capital Corp. for the services of Kenneth Berry to act as the Company's Chairman. The base monthly fee is $15,000 under each agreement.

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 year ended December 31, 2016, the Company incurred expenses $120,000 (2015 - $120,000) under the administrative services contract.

In addition to the above:

a) Included in marketable securities as at December 31, 2016 is $298,500 (2015 - $193,000) market value of shares received from companies with directors in common.

b) Included in exploration recovery of costs as at December 31, 2016 is $1,232,393 (2015 - $1,203,976) received from joint venture partners who have a common director and a common officer.

c) Included in accounts receivable as at December 31, 2016 is $146,657 (2015 - $100,983) from companies who have common directors or officers.

d) Included in accounts payable as at December 31, 2016 is $205,512 (2015 - $78,717) to companies who have common directors or officers.

e) For the year ended December 31, 2016, the Company incurred $97,666 (2015 - $66,000) for compensation to directors. As at December 31, 2016, $35,666 (2015 - $33,000) is held in accounts payable and accrued liabilities.

f) For the year ended December 31, 2016, the Company recorded $37,468 (2015 - $239,300) for share-based payments to key management personnel of the Company.

(Expressed in Canadian dollars)

13 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:

	December 31, 2016	December 31, 2015
Canada:		
Current assets	**$ 7,071,975**	$ 1,137,756
Mineral properties	**429,474**	1,086,048
Non-current assets	**160,121**	155,721
Current liabilities	**(688,570)**	(456,359)
Non-current liabilities	**(144,665)**	-
	$ 6,828,335	$ 1,923,166
Mexico:		
Current assets	**$ 474,041**	$ 332,012
Mineral properties	**67,589,671**	37,200,654
Non-current assets	**927,457**	124,397
Current liabilities	**(40,597)**	(31,674)
	$ 68,950,572	$ 37,625,389

14 Commitments:

The Company entered into a contract for office rent, which commences January 1, 2016 and expires July 31, 2018. The following table summarizes the Company's total annual obligations under this agreement as at December 31, 2016:

2017	27,900
2018	16,275
	$ 44,175

The Company entered into a contract for additional office rent, which commenced August 1, 2013 and expires July 31, 2018. During the year ended December 31, 2015, the Company subleased its additional office lease, reducing its monthly commitment from $2,967 to $339 per month until July 31, 2018. The following table summarizes the Company's total annual obligations under this agreement as at December 31, 2016:

2017	4,068
2018	2,373
	$ 6,441

15 Financial Instruments and Financial Risk Management:

The Company's financial instruments include cash and cash equivalents, receivable and advances, marketable securities, advances and deposits, and accounts payable and accrued liabilities and termination benefit 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.

The Company's risk management policies are established to identify and analyze 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 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 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 December 31, 2016, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year and termination benefit payments, payable up to a further 22 months.

(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.

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

(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. 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:

	December 31, 2016	December 31, 2015
	US$	US$
Cash and cash equivalents	**1,952,106**	189,295
Receivables and advances	**641,601**	-
Trade accounts payable and accrued liabilities	**4,950**	14,635
	Mexican Peso	Mexican Peso
Cash and cash equivalents	**598,552**	1,524,185
Receivables and advances	**17,372,481**	2,188,978
Trade accounts payable and accrued liabilities	**1,369,395**	376,384

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 +/- $330,000. 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 year-end would not have a material impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

15 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:

December 31, 2016		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	482,290	$	-	$	-	$	482,290
Cash and cash equivalents	$	5,789,615	$	-	$	-	$	5,789,615
December 31, 2015		Level 1		Level 2		Level 3		Total
Marketable securities	$	238,890	$	-	$	-	$	238,890
Cash and cash equivalents	$	730,682	$	-	$	-	$	730,682

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 year. The Company's carrying values of receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

16 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 A 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 year ended December 31, 2016.

17 Subsequent Event:

In January 2017, the Company granted an aggregate of 6,695,000 share options to officers, directors and consultants of the Company at a price of $0.40 per share for a period of five years.