KOOTENAY
SILVER INC.

YEAR ENDED DECEMBER 31, 2016
MANAGEMENT DISCUSSION AND ANALYSIS

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YEAR ENDED DECEMBER 31, 2016
MANAGEMENT DISCUSSION AND ANALYSIS

DATE

This Management Discussion & Analysis ("MD&A") of Kootenay Silver Inc. and its subsidiaries (referred to as the "Company" or "Kootenay") was prepared by management as at April 28, 2017, and was reviewed and approved the Board of Directors of Kootenay. The following discussion of performance, financial condition and prospects should be read in conjunction with the annual audited consolidated financial statements and the MD&A for the years ended December 31, 2016 and 2015, and notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The information provided herein supplements but does not form part of the financial statements. This discussion covers the year ended December 31, 2016, and the subsequent period up to the date of issue of this MD&A. Additional information relating to the Company is available at www.sedar.com.

The Company has prepared this MD&A following the requirements of National Instrument 51-102 ("NI-51-102"). These statements are filed with the relevant regulatory authorities in Canada. All currency amounts are expressed in Canadian dollars unless otherwise noted.

Unless otherwise indicated the geological disclosure contained within this MD&A has been reviewed and verified by Kootenay's President & CEO, James McDonald, P.Geo (a qualified person for the purpose of National Instrument 43-101 ("NI 43-101"), Standards of Disclosure for Mineral Projects). Mr. McDonald is also a director of Kootenay.

Forward-Looking Information

This Management's Discussion and Analysis contains statements and information concerning anticipated developments in the Company's continuing and future operations, the adequacy of the Company's financial resources and financial projections. Forward-looking statements include, but are not limited to, statements concerning or the assumptions related to the estimation of mineral resources, methodologies and models used to prepare resource estimates, the conversion of mineral properties to resources, the potential to expand resources, future exploration budgets, plans, targets and work programs, development plans, activities and timetables, grades, metal prices, exchange rates, results of drill programs, environmental risks, political risks and uncertainties, unanticipated reclamation expenses, and other events or conditions that may occur in the future.

Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimated," "potential," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are statements concerning the Company's current beliefs, plans and expectations about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, the risks that: (i) any of the assumptions in the resource estimates turn out to be incorrect, incomplete, or flawed in any respect; (ii) the methodologies and models used to prepare the resource estimates either underestimate or overestimate the resources due to hidden or unknown conditions, (iii) operations are disrupted or suspended due to acts of god, internal conflicts in the country of Mexico, unforeseen government actions or other events; (iv) the Company experiences the loss of key personnel; (v) the Company's mine operations are adversely affected by other political or military, or terrorist activities; (vi) the Company becomes involved in any material disputes with any of its key business partners, lenders, suppliers or customers; or (vii) the Company is subjected to any hostile takeover or other unsolicited attempts to acquire control of the Company. Other factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Other risks are more fully described under the heading "RISKS AND UNCERTAINTIES" below. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future, except as required by law. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. For the reasons set forth above, investors should not place undue reliance on the Company's forward-looking statements.

DESCRIPTION OF BUSINESS

The Company is an exploration stage mining company involved in the exploration of mineral properties in Mexico and Canada. The Company's main business objective is identifying and acquiring mineral deposits economically worthy of further exploration, development and mining by the Company or to option or sell such properties to other mineral exploration and development companies. The Company is classified as a Tier One issuer on the TSX Venture Exchange ("TSX-V") and its common shares are listed and trade under the symbol 'KTN' and certain share purchase warrants trade under the symbol 'KTN.WT'. The management and technical team have extensive international experience in mineral exploration, development and mining, public company management and operations and experience in Canadian venture capital markets.

OBJECTIVES AND STRATEGY

The primary objective and business plan of the Company is to discover or acquire silver dominant mineral deposits with potential economic viability for further exploration and development and possible production of silver and by product metals. This is accomplished through both grass roots exploration discovery and acquisition of mineral exploration properties that have existing resources. Advancement of these assets requires capital and capital is accessed via equity funding or optioning and/or joint venture partners. The Company assesses financial and technical risk associated with a particular project and risk to reward potential for further exploration and development in conjunction with market risk before deciding whether to advance it with its own capital (lower risk and risk to reward potential) or to share the risk by optioning all or a portion of the project to a partner to conduct further exploration work or to provide funding to advance the project (higher risk and risk to reward potential or mitigation of technical or finance risks). Projects, once acquired are advanced through the various stages of exploration and moved to economic assessment if resources are identified. If a project demonstrates potential to be economically viable via completion of a preliminary economic assessment, prefeasibility or feasibility study then it will be moved to a production decision and funding will be sought to build a mine through traditional mine finance sources, joint venture or sale of the company or project. The rate at which a given project is advanced is dependent on several factors including management's assessment of project and the risks of development, including the probability of discovery and potential economic viability based on past work, results of additional drilling, resource estimates, metallurgy, environmental impact, social license to operate and permitting among others. It is also strongly influenced by access to capital to advance the various stages of assessment. When markets for precious metals are favorable towards precious metals and mining then capital is more accessible and projects can be advanced more quickly by equity financing with the Company moving ahead with a 100% interest. When markets are not favorable towards equity investment the Company seeks partners to enter into option or joint venture agreements to advance projects for ongoing development.

The Company has been successful in discovering mineral resources through grassroots exploration and advancing these projects through equity financing (Promontorio and La Negra) and option/joint venture agreements (Jumping Josephine gold discovery sold to Orex Minerals). The acquisition of 100% of the Promontorio Property and the ongoing exploration work conducted by the Company led to two significant silver discoveries in Sonora, Mexico, the Promontorio and La Negra . While a silver resource estimate has not yet been calculated on La Negra, the Promontorio deposit has the potential to become one of the largest poly-metallic silver deposits in Sonora.

On April 21, 2016, the Company acquired the La Cigarra silver deposit located in the famous Parral Mining District in Chihuahua, Mexico through a court approved plan of arrangement with Northair Silver Corp. This acquisition has doubled the Company's estimated silver resources (excluding silver equivalents) as well as provided resource diversification, reduced project risk and increased liquidity. These two resource assets have also provided the Company with increased flexibility of advancing the deposits at the Promontorio and La Negra projects by entering into an option agreement with Pan American Silver Corp.

Under the terms of this option agreement, Pan American has an option to earn a 75% interest in the Promontorio Property by, among other things, incurring US$8,000,000 of exploration and development expenditures over a four-year period, making cash payments totaling US$8,050,000. The Company maintains a 25% carried interest to production (see further details below) under the heading "Promontorio Silver Project – Option Agreement with Pan American Silver Corp."). This agreement provides a potential pathway to production with a partner that has the developmental experience and financial and technical capability to advance this project to production. The Company will focus its financial resources and management effort on trying to advance the La Cigarra deposit towards economic assessment and to assess other silver opportunities for future acquisition.

OVERVIEW OF PERFORMANCE

ACQUISITION OF NORTHAIR SILVER CORP.

On April 21, 2016, the Company completed its acquisition of Northair Silver Corp. ("Northair") pursuant to a court approved plan of arrangement under the provisions of the Business Corporations Act (British Columbia). The Company acquired all the issued and outstanding common shares of Northair in exchange for common shares and share purchase warrants of the Company and Northair became a wholly-owned subsidiary of the Company. As consideration for the arrangement, each Northair shareholder received, in respect of each Northair common share held, 0.35 of a common share of the Company, plus 0.15 of a tradeable share purchase warrant to purchase common shares of the Company at an exercise price of $0.55 for a period of five years from closing. Following the completion of this arrangement, the former shareholders of Northair held approximately 35% of the outstanding common shares of the

Company, totaling 53,909,261 common shares and 23,103,969 share purchase warrants, which are listed on the TSXV under the trading symbol "KTN.WT".

Northair owned 100% of the La Cigarra Project, which is located near the city of Parral, within the Parral Mining District, in the state of Chihuahua, north central Mexico. La Cigarra consists of mineral concessions totaling approximately 19,000 hectares.

An updated NI 43-101 Resource Estimate ("Resource Estimate") was completed by Allan Armitage, PhD, P. Geo. and Joe Campbell, B.Sc., P. Geo., of GeoVector Management Inc. The Resource Estimate was calculated based on results from 156 of 171 holes totaling 30,443 meters within the potentially surface minable mineralized area comprised of the San Gregorio and Las Carolinas mineralized zones, which combine to form a total strike length of 2.4 kilometers. The resource estimate was constrained by a Whittle™ pit shell utilizing a USD $22/oz silver price, an economic cutoff grade of 35 gpt of silver and metallurgical recoveries of 84% silver. Highlights of the mineral resource estimate are as follows:

- Measured and indicated mineral resources of 51,470,000 ounces of silver within 18,540,000 tonnes at an average grade of 86.3 gpt silver, representing a 14% increase in grade from the 2013 Resource Estimate;
- Inferred mineral resource of 11,460,000 ounces silver within 4,450,000 tonnes at an average grade of 80.0 gpt silver, representing a 31% increase in grade from the 2013 Resource Estimate;
- An increase of 17% in total ounces from the 2013 Resource Estimate;
- Higher than average grade is found in outcrop, which could improve project economics in the early years with significant by-products including gold, lead and zinc;
- The deposit remains open along the 6-kilometer strike and at depth with potential to also expand near surface mineralization.

Northair completed a phase 3 metallurgical work program comprising the total La Cigarra silver deposit. Results of these tests showed silver recoveries of up to 88% (concentrates and leaching); producing a high lead-silver concentrate consisting of 34% lead and 23,000 gpt silver. The option of adding a zinc circuit was also successfully achieved producing a zinc-silver concentrate of up to 58% zinc and 2,500 gpt silver. The metallurgical program was designed to ensure the implementation of an efficient process flow-sheet with improvements to the grinding circuit as well as a streamlined lead flotation process.

On April 19, 2016 ("Closing Date"), completed the acquisition of the 2.5% net smelter return royalty ("NSR") on future production from Northair's La Cigarra project from Coeur Capital, Inc. ("Coeur"), as announced on March 29, 2016. Under the terms of the agreement, Kootenay paid to Coeur US$250,000 in cash upon signing and a second cash payment of US$250,000 was on the Closing Date. In addition, the Company issued to Coeur on the Closing Date common shares of the Company equal to US$2,000,000 at a share price of Cdn$0.275 per share which resulted in the issuance of 9,629,091 common shares. The shares issued were subject to a statutory hold period which expired four months plus one day from the Closing Date under applicable Canadian securities laws.

LA CIGARRA EXPLORATION

During the year ended December 31, 2016, the Company conducted and reported the following exploration programs on the La Cigarra silver project:

- Sampling and mapping program at the La Soledad Zone, of 70 rock samples taken over a 500 meter long north-south striking area approximately 1,000 meters south of the main deposit. In total, 35 samples reported grades exceeding 10 gpt silver with many samples returning high values of lead. included one channel sample returning a high value of 252.0 gpt silver and 20% lead over 1.2 meters.

- Initiated and completed a 2,112meter, 11-hole drill program that discovered the RAM structure located approximately 700 meters to the west and south of the La Cigarra silver deposit. Drill tested a 400-meter strike length of the 3,800-meter long RAM structure and dip extents between 65 and 200 meters. Assay results from drilling confirm RAM is a strongly mineralized silver system, hosting multiple zones of quartz veining as sheeted, stockwork or brecciated veins within an altered structure that measures 50 to 150 meters wide. The system remains open along strike to the north and south for up to 3,400 meters and down dip to the west.

  Drill Highlights from RAM Structure:
  - **CC-16-04** returning 89.83 gpt silver over 18.0 meters; including 190.5 gpt silver over 3.0 meters
  - **CC-16-09** returning 166.5 gpt silver over 6.0 meters; including 761.0 gpt silver over 1.0 meter
  - **CC-16-03** returning 58.86 gpt silver over 16.5 meters; including 141.25 gpt silver over 4.5 meters
  - **CC-16-01** returning 27.60 gpt silver over 31.1 meters; including 83.0 gpt silver over 4.45 meters
  - **CC-16-06** returning 56.45 gpt silver over 14.7 meters; including 80.14 gpt silver over 9.35 meters

  The RAM structure is one of 8 prospective targets that have been identified proximal to the La Cigarra deposit with the potential to add near surface silver resources to the project. A total of 11 target areas outside the resource have been identified to date.

- Completed seven holes with 1,395 meters of drilling along the La Soledad Structure with results report in February 2, 2017. The drill program tested a 700-meter strike length of the La Soledad structure, which extends southward along strike from the La Cigarra silver deposit for approximately 2 kilometers. All seven holes intercepted significant widths of veining and varying grades of silver mineralization confirming the presence of a large mineralized structure.

- Concurrent with the drill program, ground exploration identified a new large gold target that is associated with a contact skarn zone representing a potentially significant gold target. The Company believes the newly identified zone, which trends east-west for up to 1,000 meters, may be the extension of the Navidad target that includes an untested silver-lead anomaly approximately 500 meters east of the La Cigarra deposit.

See Subsequent Events Section

OPTION AGREEMENT WITH PAN AMERICAN SILVER CORP.

On March 4, 2016, (see February 15, 2016 new release) the Company entered into an option agreement with Pan American and its wholly owned Mexican subsidiary Compania Minera Dolores S.A. de C.V. ("Dolores") whereby the Company and and its wholly owned Mexican subsidiary Minera J.M. S.A. de C.V. ("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 by incurring US$8,000,000 of exploration and development expenditures on MJM's properties in the Promontorio Mineral Belt over a four-year period; making cash payments to MJM totaling US$8,050,000, with US$250,000 paid on closing and the balance over a four-year period; and a carried interest for MJM to production.

Upon exercise of the option, the parties will enter into a joint venture pursuant to which 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 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.

Concurrently, Pan American, Dolores and MJM entered into a property purchase option agreement pursuant to which Dolores has provided MJM with an option to acquire up to two of its exploration properties in Mexico in return for a 2.5% net smelter return royalty on each of the acquired properties. After review and analysis, the Company decided not to elect on any of the exploration properties offered by Dolores. The properties offered did not meet the criteria required by the Company, including the risk and cost associated which included future payments and liabilities, foreseen future exploration success and use of risk capital versus reward when compared to current projects owned by the Company.

Additionally, Pan American completed a non-brokered private placement of a total of 15,884,459 common shares of the Company at a purchase price of $0.22 per shares for a total purchase price of $3,553,431. The initial tranche closed March 4, 2016 for a total of 9,090,909 common shares of the Company and the second tranche closed on April 29, 2016 with a further 6,793,550 common shares of the Company. As a result of the transaction, Pan American owns approximately 10% of the Company's issued and outstanding shares on a non-diluted basis. Subject to certain conditions, Pan American has the right to participate in any future equity offerings of the Company to maintain its pro-rata share percentage interest in the Company. See Financing Section of this MD&A.

PROMONTORIO SILVER PROJECT EXPLORATION

The Company's Promontorio Silver Project ("Promontorio") is located in Sonora, Mexico. On May 14, 2013, the Company announced an updated resource estimate prepared by SRK Consulting (U.S.) Inc. of Lakewood, Colorado ("SRK") incorporating the gold content contained within mineral resources of Promontorio, due to new metallurgical data and information which supported the possible recovery of gold. This updated resource estimate does not incorporate any drilling completed since the previous resource estimate announced August 21, 2012, which was based on 65,092 meters of drilling. See Promontorio Silver Project – Resource Estimate section of this MD&A for mineral resource estimates.

The Company has drilled 315 holes totaling approximately 91,300 meters which included step-out drilling on geophysical, geological and prospecting targets on Promontorio. Drill results reported on Promontorio can be found on the Company's website.

The Phase V drill program on Promontorio totaled 89 holes for approximately 23,200 meters and focused on the following components:

- Potential for expansion of the known resource to the SW and NE and definition of high-grade zones;
- Initial drill testing of breccia targets that are located outside of the known silver resource;
- Continuing baseline studies to further advance the permitting process;
- Continuing metallurgical testing to further define metal recoveries; and
- Monitoring wells for hydrologic measurements needed for pit design and process water assessment.

The Company has evaluated 2,900 line kilometers of airborne geophysics identifying similar EM signatures to those over the Main Pit and Northeast zones some of which are associated with mineralization on surface. In addition ground work has identified separate mineralized zones of which may be drilled at some future time.

THE LA NEGRA DISCOVERY

The La Negra discovery is a hydrothermal-diatreme breccia exposed over a 100 to 150 x 500 meter area and is contained within the Promontorio claim block, approximately 7.0 km north of the current Promontorio resource. The Company has drilled a total of 6,213 meters over 41 core drill holes and has confirmed wide spread silver mineralization extending from surface up to depths of 250 to 300 vertical meters below surface. Since optioning the Promontorio Property, Pan American have drilled a further 6,800 meters over 31 holes.

Preliminary metallurgical tests on core samples was announced on October 22, 2015 and showed high silver recoveries by both leach extraction and flotation methods. Silver extraction in seven bottle roll tests (leach tests) ranged from 71 to 90%. Silver extraction in three rougher flotation tests ranged from 85 to 98%. Importantly, silver extraction by leaching was not influenced by sulphide (sulphur) content, and a sample of material from 100 to 200m below surface had 89% extraction in a bottle roll test. High silver recoveries by leaching, including in sulphide material, indicate potential for silver to be recovered on site in a dore, a lower cost recovery option than a sulphide concentrate produced by flotation.

Drilling Programs conducted by the Company

The Company completed its Phase I drill program on La Negra in November 2014 and completed its Phase II drill program and reported the final three holes on May 20, 2015. A total of 16 drill holes, with a total of 3,040 meters drilled, with results showing excellent continuity of silver mineralization reaffirming potential for a low cost open pit silver deposit. The depth potential is also demonstrated during the Phase II drill program with silver intercepts 250 to 300 meters vertically from surface, extending silver mineralization 100 to 150 meters deeper than previous drilling, expanding the size potential and extending the mineralized breccia to the northeast.

Drilling Programs conducted by Pan American

On October 25, 2016, the Company announced drill results from the first 11 drill holes completed by Pan American and increased the size of the planned drill program to 5,400 meters from the initial indication of 3,400 meters announced on June 7, 2016.

Drill highlights include:

- **LN-42-16** returning three high grade intervals within 122.5 meters of 124 gpt silver and 0.15 gpt gold including 693 gpt silver and 0.39 gpt gold over 6.25 meters; 672 gpt silver and 0.13 gpt gold over 4.65 meters; and 631 gpt silver and 0.18 gpt gold over 3.45 meters.
- **LN-43-16** returning from a new more southerly breccia 720 gpt silver and 0.13 gpt Au over 19 meters within 44.5 meters of 363 gpt silver and 0.12 gpt gold and higher in the hole the previously known breccia graded 1,226 gpt silver and 0.28 gpt gold over 6.15 meters within 235 gpt silver and 0.09 gpt gold over 38 meters.

These two holes are from infill drilling and identified a second more southerly breccia.

Subsequent to December 31, 2017, the Company announced further drill results from the La Negra discovery, drilling returned a series of high-grade silver intercepts from 19 holes from the drill program being conducted and operated by Pan American. All holes reported are infill and step out drilling down dip on the La Negra breccia.

Drill highlights include:

- **LN-54-16** returning 77 gpt silver (“Ag”) over 30.95 meters including 341 gpt Ag over 3.75 meters
- **LN-57-16** returning 149 gpt Ag over 44.15 meters including 449 gpt Ag over 9.15 meters and 1786 gpt Ag over 1.5 meters
- **LN-58-16** returning 352 gpt Ag over 8.7 meters including 516 gpt Ag over 5.7 meters
- **LN-59-16** returning 237 gpt Ag over 32.15 meters including 534 gpt Ag over 11.2 meters and 815 gpt Ag over 2.90 meters and 991 gpt Ag over 1.65 meters
- **LN-61-16** returning 98 gpt Ag over 14.4 meters including 237 gpt Ag over 4.4 meters
- **LN-65-16** returning 145 gpt Ag over 28.55 meters including 460 gpt Ag over 8.15 meters and 738 gpt Ag over 3.55 meters and 1208 gpt Ag over 0.6 meters
- **LN-67-16** returning 121 gpt silver over 47.1 meters including 582 gpt silver over 2.55 meters
- **LN-68-16** returning 194 gpt silver over 40.85 meters including 529 gpt silver over 7.5 meters and 90 gpt silver over 10.65 meters including 137 gpt silver over 5.55 meters
- **LN-69-16** returning 98 gpt silver over 59.25 meters including 378 gpt silver over 3.65 meters

Pan American is scheduled to recommence drilling in late June-early July 2017. For additional details please see the Company’s news releases dated February 15 and April 3, 2017.

SUBSEQUENT EVENTS

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.

On January 22, 2017, the Company announced results from preliminary metallurgical testing on its La Cigarra Silver Project in Chihuahua State, Mexico, applying the proprietary Silvox Technologies Inc. (“SILVOX”) process which indicated a marked improvement in cyanide leaching for silver recoveries versus industry standard leaching processes previously applied to the deposit.

This testing was conducted to assess the possibility of utilizing leach processes on La Cigarra mineralization as an alternative to floatation processes. Leach processes are typically lower cost in operation and capital requirements than floatation and concentration methods. Although the leach recoveries are substantially lower than results of floatation testing (upto 58% indicated for Silvox leach vs. up to 88% for floatation) further testing is warranted to be able to assess which process or combination of processes will maximize the potential returns.

Initial bottle roll ("BR") testing using industry standards and SILVOX processes were completed using a typical 48-hour period at minus ¼ inch crush size from a bulk sample collected from La Cigarra. Standard cyanide leaching returned an estimated 38% silver recovery compared to a range of 44% to 52% from the SILVOX process, a 6% to 14% increase in silver recovery. Additionally, two column tests using the SILVOX process were completed indicating potential for higher silver recovery than the BR test results. These tests were completed over a 120-day period at minus ¼ inch crush size with results suggesting at silver recovery of 52% to 58%. Column tests were not conducted to sufficient QA/QC but may suggest potentially higher recoveries than BR testing.

On March 22, 2017, the Company announced that its option partner, a wholly-owned subsidiary of Antofagasta PLC had approved the drilling of five separate targets on the Company's Silver Fox Property. An estimated 3,000-meter drill program is scheduled to commence during the third quarter of 2017. See the Generative Exploration Projects Section of the MD&A.

See the La Negra Discovery; La Cigarra Exploration; and Outlook Sections of the MD&A for more subsequent events.

PORTFOLIO OF MINERAL PROPERTIES

The Company has aggressively pursued the advancement of its Promontorio Project as well as establishing Generative Exploration Teams in Northwest Mexico and British Columbia, Canada. The Company continues to seek joint venture partners to option its generative exploration projects, who by spending exploration dollars and issuing share and/or cash payments to the Company, obtain a right to an earn-in interest, or explored by the Company directly. The Company currently has five exploration properties that are optioned out to third parties: namely the Fox and Two Times Fred located in the Nechako region of British Columbia, the Silver Fox property located in the South Eastern region of British Columbia, the Cervantes property located in Sonora, Mexico, and the Promontorio Silver Belt located in Sonora State, Mexico.

PROMONTORIO SILVER PROJECT – RESOURCE ESTIMATE

On May 14, 2013, the Company announced the results of an updated resource estimate prepared by SRK incorporating the gold ("Au") content contained into the mineral resources of the Promontorio Silver Project, due to new metallurgical data and information which supports the potential recovery of gold (see February 28, 2013 news release). The updated Measured and Indicated Resource contains an estimated 44,504,000 tonnes containing an estimated 92,035,000 oz. AgEq grading 64.32 gpt AgEq with another 24,326,000 oz. AgEq grading 51.95 gpt AgEq categorized as Inferred, as summarized the table below:

Resource Statement for the Promontorio Deposit, Sonora State, Mexico: Effective Date March 31, 2013*

	20 gpt AgEQ Cut-Off	**Tonnes (000's)**	**Avg AgEq (gpt)**	**Avg Ag (gpt)**	**Avg Au (gpt)**	**Avg Pb (%)**	**Avg Zn (%)**	**AgEq Oz (000's)**	**Ag Oz (000's)**	**Au Oz (000's)**	**Pb lbs (000's)**	**Zn lbs (000's)**
Pit-Constrained	Measured	10,289	74.79	32.69	0.40	0.46	0.55	24,741	10,814	134	105,328	123,715
	Indicated	34,215	61.18	26.30	0.34	0.38	0.45	67,294	28,926	373	287,579	335,904
	M+I	**44,504**	**64.32**	**27.77**	**0.35**	**0.40**	**0.47**	**92,035**	**39,740**	**506**	**392,907**	**459,619**
	Inferred	14,564	51.95	24.95	0.28	0.28	0.31	24,326	11,683	132	89,430	98,462
	45 gpt AgEQ Cut-Off	**Tonnes (000's)**	**Avg AgEq (gpt)**	**Avg Ag (gpt)**	**Avg Au (gpt)**	**Avg Pb (%)**	**Avg Zn (%)**	**AgEq Oz (000's)**	**Ag Oz (000's)**	**Au Oz (000's)**	**Pb lbs (000's)**	**Zn lbs (000's)**
Underground	Measured	3	62.27	25.12	0.32	0.37	0.63	6	2	0	23	40
	Indicated	212	56.88	22.86	0.28	0.40	0.55	387	156	2	1,889	2,551
	M+I	**215**	**56.96**	**22.89**	**0.28**	**0.40**	**0.55**	**393**	**158**	**2**	**1,913**	**2,591**
	Inferred	1,265	61.17	26.57	0.37	0.36	0.38	2,488	1,081	15	10,049	10,667

Notes: *** Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.**

[1] Open pit resources stated as contained within a potentially economically minable pit shell;

[2] Pit optimization is based on assumed silver ("Ag"), gold, lead ("Pb"), and zinc ("Zn") prices of $31/oz., $1650/oz., $0.96/lb, and $0.89/lb respectively, mill recoveries of 74%, 70%, 81% and 88% respectively, a 1.5% NSR, estimated mining costs of $1.20/t, and estimated processing and G&A cost of $12.00/t; and an estimated POX cost of $2/tonne ($30/tonne of pyrite concentrate);

[3] Break-even cut-off grades used were 20 gpt AgEq for open pit mill material and 45 gpt AgEq for underground material;

[4] Silver equivalency is based on unit values calculated from the above metal prices, and assumes 100% recovery of all metals; and

[5] Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.

The following material changes incorporated into the updated resource estimate contributed to the significant increase in the mineral resource:

- Additional metallurgical test work has allowed for the inclusion of gold in the mineral resources, which has a significant impact on the AgEq grades and relative ounces.
- The estimated Measured and Indicated gold resources contained within the mineralized diatreme system total 508,000 ounces with an additional 155,000 ounces Inferred.

This mineral resource estimate was completed by Matthew Hastings MSc, P.Geo and reviewed by Frank Daviess, MAusIMM, RM-SME, Associate Principal Resource Geologist with SRK. A site visit was conducted by Allan Moran, of SRK, R.G., C.P.G, who has reviewed pertinent geological information in sufficient detail to support the data incorporated in the mineral resource estimate. Mr. Daviess is an Independent Qualified Person as defined under NI 43-101 and is responsible for the mineral resource estimate presented in this release. Eric Olin, of SRK, MSc, MBA, RM-SME reviewed the metallurgical information contained in this release.

Drilling data includes a total of 45,118 samples from 65,092 meters of drilling. Of the 45,118 samples in the database, 22,658 lie within the wireframes and were used in the resource estimation. Wireframes are three-dimensional closed solids constructed in Vulcan™ and based on a combination of logged geology and assay information. These wireframes limit the estimation.

Three-dimensional wireframes were constructed for the modeled domains using Leapfrog 3D™ modeling software as well as Vulcan™. SRK modeled both the Pit and NE zones independently, and corrected inconsistencies with the Leapfrog solids using Vulcan.

The average sample length for all samples is 1.44 meters. Samples were composited to 3 m lengths within the breccia, stockwork, and PC zones. For the estimation, SRK used Ordinary Kriging in the densely-drilled areas and Inverse Distance Weighting for the areas with more widely-spaced drilling. SRK applied appropriate block model validation techniques for a resource estimate at this stage of project development.

Pit optimization was conducted using Whittle™ software and evaluating the block model which was constructed in Vulcan™. The purpose of the pit-optimization exercise is to satisfy the conditions of "reasonable prospects for economic extraction" as defined in the CIM Guidelines using pit shells based on a very simple "break-even" cash flow model. These pits are not representative of detailed mine plans or even the "best" pit design for the Project. A cut-off for the mineral resource of 20 gpt and 45 gpt AgEq for open pit and underground potential was used respectively.

Mineral Resources are categorized as a Measured Resource where at least 3 drill holes occur within a 25 meters ellipsoid, Indicated being where at least 3 drill holes occur within a 50 meters ellipsoid and Inferred being where at least 2 drill holes occur within a 75 meters ellipsoid. Blocks estimated using Inverse Distance Weighting in the widely-spaced drilling intermediate to the two primary zones are categorized as Inferred. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.

G&T Metallurgical Services Ltd, Kamloops, BC, Canada completed preliminary metallurgical programs on drill core composites from the Promontorio property for Kootenay in 2009, 2012 and 2013. Several significant factors were noticed in SRK's review of the metallurgical process work conducted to date. The metallurgical program investigated a standard polymetallic sequential flotation flow sheet that includes:

- Crushing;
- Grinding;
- Lead Flotation;
- Zinc Flotation; and
- Pyrite/Arsenopyrite Flotation

Pressure oxidation (POX) of the pyrite/arsenopyrite concentrate is required to extract the contained gold by cyanidation. SRK estimates metal recoveries shown in the table below are based on the average results from the preliminary metallurgical test programs conducted in 2009, 2012 and 2013. Overall gold recovery is estimated at 70% and is based on 65% gold recovery into the pyrite flotation concentrate followed by 94% cyanidation gold extraction from the pyrite concentrate after pressure oxidation, plus an average 9% gold recovery into the lead flotation concentrate.

Metallurgical Recovery Assumptions

Metal	Product	Recovery (%)
Silver	Lead Concentrate	74
Lead	Lead Concentrate	81
Zinc	Zinc Concentrate	88
Gold	Pyrite Concentrate	65
Gold	Lead Concentrate	9
Gold	Overall *	70

* Includes 94% cyanidation extraction from pyrite concentrate + gold contained in lead concentrate

The current NI 43-101 compliant Technical Report was filed on June 7, 2013 and can be reviewed on SEDAR (www.sedar.com).

La Cigarra Project – Resource Estimate

In January 2015, Northair announced the results of an updated NI 43-101 Resource Estimate (“Resource Estimate”) completed by Allan Armitage, PhD, P. Geo. and Joe Campbell, B.Sc., P. Geo., of GeoVector Management Inc. The Resource Estimate was calculated based on results from 156 of 171 holes totaling 30,443 meters within the potentially surface minable mineralized area comprised of the San Gregorio and Las Carolinas mineralized zones, which combine to form a total strike length of 2.4 kilometers. The resource estimate was constrained by a WhittleTM pit shell utilizing a USD $22/oz silver price, an economic cutoff grade of 35 gpt of silver and metallurgical recoveries of 84% silver is tabulated below:

Resource Category*	Tonnes	In-Situ Grade				Contained Metal			
		Ag (gpt)	Au (gpt)	Pb (%)	Zn (%)	Ag (oz)	Au (oz)	Pb (lbs)	Zn (lbs)
Measured	3,620,000	88.9	0.074	0.14	0.19	10,340,000	9,000	10,920,000	15,510,000
Indicated	14,930,000	85.7	0.068	0.13	0.18	41,130,000	33,000	42,950,000	59,260,000
Meas + Ind	**18,540,000**	**86.3**	**0.069**	**0.13**	**0.18**	**51,470,000**	**41,000**	**53,870,000**	**74,770,000**
Inferred	**4,450,000**	**80.0**	**0.058**	**0.13**	**0.16**	**11,460,000**	**8,000**	**12,680,000**	**15,610,000**

Note: Mineral resources are reported in relation to a conceptual pit shell at a 35 gpt silver cut-off grade and a USD $22/oz silver price. Mineral resources that are not mineral reserves do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate and numbers may not add up due to rounding.*

Generative Exploration Projects

The Company continues to seek partners to option its projects under its generative model which minimizes financial exposure by granting external exploration companies a right to earn an interest in properties, subject to exploration expenditures and share payments made by them. Generative properties are continuously prioritized and dropped based on ongoing exploration work.

Cervantes

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 located in Sonora, Mexico. 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. Aztec will also be responsible for annual Mexican assessment work and mining concession taxes during the term of the agreement. The Company has received 200,000 common shares and US$30,000 under the terms of this agreement of which with 100,000 common shares and a cash payment of US$20,000 was received during the year ended December 31, 2016.

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 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 decides not to exercise the Second Option to acquire the remaining 35%, a joint venture will be formed to further develop the project. If at anytime during the process of exploration and/or development after the completion of the Scoping Study and before the completion of a feasibility study or production decision, an additional resource is delineated on the property Aztec shall have the right to acquire the remaining 35% interest under the same terms of acquiring the initial resource outlined previously. Effective September 30, 2016, the obligations of the option agreement were assigned to Aztec Minerals Corp. from Aztec.

San Diego

On May 14, 2015, the Company announced that it 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 Inc. (“Alamos”)(formerly AuRico Gold Inc. who merged with Alamos). The option allowed ODA to earn up to 100% interest in the San Diego property located in northern Sonora State, Mexico. During the year ended December 31, 2016, the Company received notice of termination from Alamos.

Silver Fox

On September 29, 2015, the Company entered into an option agreement with a wholly-owned subsidiary of Antofagasta plc (“Antofagasta”), whereby the Company granted 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. Antofagasta has the right to accelerate the First Option Expenditures.

Upon exercising the First Option, 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. Upon the exercise of the Second Option Antofagasta will have earned an 80% interest and Kootenay will hold a 20% interest in Silver Fox under a joint venture basis under the terms of the Agreement. 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 (of which 50,000 shares have been issued) to Kennedy by July 3, 2018 (the "Underlying Option"), subject only 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.

Spikes Vacation, Walter the Water Buffalo and Two Times Fred
On June 30, 2015, the Company announced that it has exercised its option to acquire 100% interest in the Spikes Vacation, Walter the Water Buffalo and Two Times Fred properties, which are located in the South Eastern and Nechako Regions of British Columbia. Under the Kennedy Group agreement, the Company must issue for Two Times Fred, Spikes Vacation and Walter the Water Buffalo, a total of 100,000 common shares over three years with 25,000 issued for each on receipt of TSX-V approval. The Kennedy group retains an underlying 2% net smelter royalty, which can be purchased by the Company in all or in part for $500,000 per each one-half percent (0.5%). Under the Critchlow Contracting Ltd. agreement, the Company must issue an aggregate total of 130,000 common shares over five years, with 15,000 issuable on receipt of TSX-V approval and make staged cash payment totaling an aggregate $80,000 over four years, with $20,000 having been paid during the year ended December 31, 2015. The Company has the right to terminate these grubstake option agreements at any time. As at December 31, 2016, the Company has issued an aggregate total 165,000 common shares with a fair value of $74,450 related to the agreements.

Two Times Fred
During the year ended December 31, 2015, Theia Resources Ltd. completed a drill program on the Two Times Fred property. The program consisted of eight drill holes totaling 717 meters. Veins are steep dipping to the northwest and southeast directions. True widths vary from 15 to 30 meters and are composed of vein, vein stockwork and vein breccia within altered basalt. Veins bifurcate and coalesce with the widest single vein being 30 meters true width and varying from about 2m to 30 meters in width. The best interval was 3.2 gpt Au and 46.48 gpt Ag over 1.9 meters within 7.6 meters of 1.69 gpt Au and 29.36 gpt Ag. The longest interval was 67 meters of 0.370 gpt Au and 7.2 gpt Ag. Holes 6 and 8 bottomed in vein material with hole 6 just entering the vein when it had to be abandoned due to hole conditions.

On July 8, 2014, the Company entered into a letter agreement with Theia Resources Ltd. (“Theia”), granting Theia 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.

EARN-IN OPTION AGREEMENT

The Company currently has five properties that are subject to earn-in option agreements, summarized below:

Property	Company	Interest of partner
Promontorio, Sonora, Mexico	Pan American Silver Corp. via its subsidiary	up to 75% earn-in carried option
Cervantes, Sonora, Mexico	Aztec Minerals Corp.	up to 100% earn-in option
Silver Fox, BC, Canada	Antofagasta plc via its subsidiary	up to 80% earn-in option
Fox, BC, Canada	Theia Resources Ltd.	60% earn-in option
Two Times Fred, BC, Canada	Theia Resources Ltd.	60% earn-in option

RISKS AND UNCERTAINTIES

The Company is in the business of acquiring, exploring mineral properties. It is exposed to a number of risks and uncertainties that are common to other mineral exploration companies in the same business. The industry is capital intensive at all stages and is subject to variations in commodity prices, market sentiment, exchange rates for currency, inflation and other risks. The Company currently has no source of revenue other than project management fees, and interest on cash balances. The Company will rely mainly on equity financing to fund exploration activities on its mineral properties.

The risks and uncertainties described in this section are not inclusive of all the risks and uncertainties to which the Company may be subject.

Early Stage – Need for Additional Funds
The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to other companies in the same business, including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The Company anticipates future expenditures will require additional infusions of capital; there can be no assurance that such financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing common shares from treasury, control of the Resulting Issuer may change and investors may suffer additional dilution. Furthermore, if financing is not available, lease expiry dates, work commitments, rental payments and option payments, if any may not be satisfied and could result in a loss of the shareholders entire investment.

Exploration and Development
Mineral exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits, but also from finding mineral deposits that, though present, are of insufficient size and/or grade to return a profit from production.

All of the mineral claims to which the Company has a right to acquire an interest are in the exploration stages only, and are without a known body of commercial ore. Upon discovery of a mineralized occurrence, several stages of exploration and assessment are required before its economic viability can be determined. Development of the subject mineral properties would follow only if favorable results are determined at each stage of assessment. Few precious and base metal deposits are ultimately developed into producing mines.

Estimates of mineral resources may not be realized
The mineral resource estimates contained in the Company's Technical Reports are only estimates and no assurance can be given that an identified resource will ever qualify as a commercially mineable (or viable) deposit, which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from the one indicated by the drilling results and the difference may be material. Material changes in resources, grades and other factors, may affect the economic viability of projects.

Earn-In agreements
The Company continues to enter into separate option agreements with publicly listed companies where the opportunity exists on the Company's exploration properties other than Promontorio. The terms of such option agreements vary but primarily optioning companies are granted an option to earn an ownership interest in an exploration property by issuing shares to the Company and incurring exploration expenditures. These are not firm payments or expenditure commitments and are subject to these companies obtaining sufficient financing to fulfill their earn-in requirements. The agreements are also subject to termination if such payment and expenditure commitments are not fulfilled. On fulfillment of these commitments, the ownership arrangement and future development of the property will be subject to a joint venture agreement whereby the Company will be required to finance its proportionate share of exploration expenditures based on the ownership ratio of each of the parties. There is no certainty that any of these companies will complete the required expenditures on the properties to earn-in on the properties or that they will be able to obtain the necessary financing to complete the expenditure requirements in which case the costs of carrying and developing the properties will be the responsibility of the Company.

Operating Hazards and Risks
Mining operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. In the course of exploration, development and production of mineral properties, certain risks, and in particular unexpected or unusual geological operating conditions, including rock bursts, cave-ins, fires, flooding and earthquakes, may occur. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral deposits, any of which could result in damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage.

Although the Company maintains liability insurance in an amount that it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial conditions.

Political Risk
The Company's advanced project and certain other property interests are located in Mexico, and are subject to that jurisdiction's laws and regulations. Obtaining financing, finding or hiring qualified people or obtaining all necessary services for the Company's operations in Mexico may be difficult. Mexico's status as a country may make it more difficult for the Company to attract investors or to obtain any required financing for its exploration projects. The Company believes the present attitude of Mexico to foreign investment and mining to be favourable but investors should assess the political risks of investing in a foreign country. Variations from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Company.

Supplies, Infrastructure, Weather and Inflation
The Company's property interests are often located in remote, undeveloped areas and the availability of infrastructures such as surfaces access, skilled labour, fuel and power at an economic cost cannot be assured. These are integral requirements for exploration, production and development facilities on mineral properties. Power may need to be generated on site.

Due to the partial remoteness of its exploration projects, the Company is forced to rely on the accessibility of secondary roads resulting in potentially unavoidable delays in planned programs and/or cost overruns. The rainy season in Mexico during the months of June through September can sometimes flood the main access road causing temporary delays.

Metal Prices
The mining industry, in general, is intensely competitive and there is no assurance that a profitable market will exist for the sale of metals produced even if commercial quantities of precious and/or base metals are discovered. Factors beyond the control of the Company and may affect the marketability of metals discovered. Pricing is affected by numerous factors beyond the Company's control, such as international economic and political trends, global or regional consumption and demand patterns, increased production and smelter availability. There is no assurance that the price of metals recovered from any mineral deposit will be such that they can be mined at a profit.

Title Risks
Although the Company has exercised due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements, or transfers, or conflicting claims; or native claims, and title may be affected by undetected defects.

Environmental Regulations, Permits and Licenses
The Company's operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, safety and other matters. Environmental legislation in British Columbia, Canada and Mexico provides restrictions and prohibition on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines, penalties and work stoppage. In addition, certain types of operations require the submission and approval of environmental impact statements. Environmental legislation is evolving in a direction of stricter standards and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

The current operations of the Company require permits from various government authorities and such operations are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental, mine safety and other matters.

The Company believes that it is in compliance with all material laws and regulations, which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Competition and Agreements with Other Parties
The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future.

The Company may, in the future, be unable to meet its share of costs incurred under such agreements to which it is a party and it may have its interest in the properties subject to such agreements reduced as a result. Also, if other parties to such agreements do not meet their share of such costs, the Company may not be able to finance the expenditures required to complete recommended programs.

Economic Conditions
Unfavorable economic conditions may negatively impact the Company's financial viability. Unfavorable economic conditions could also increase the Company's financing costs, decrease net income or increase net loss, limit access to capital markets and negatively impact any of the availability of credit facilities to the Company.

Dependence on Management
The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Conflicts of Interest
The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province

of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and the best interest of the Company.

Insurance coverage
The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability.
The Company's policies of insurance may not provide sufficient coverage for losses related to these or other risks. The Company's insurance does not cover all risks that may result in loss or damages and may not be adequate to reimburse the Company for all losses sustained. In particular, the Company does not have coverage for certain environmental losses or certain types of earthquake damage. The occurrence of losses or damage not covered by insurance could have a material and adverse effect on the Company's cash flows, results of operation and financial condition.

Shareholder dilution
The Company's constating documents permit the issuance of an unlimited number of common shares and a limited number of preferred shares issuable in series on such terms as the Directors determine without the approval of shareholders, who have no pre-emptive rights in connection with such issuances. In addition, the Company is required to issue common shares upon the conversion of its outstanding share purchase warrants and options in accordance with their terms. Accordingly, holders of common shares may suffer dilution.

Uninsurable risks
In the course of exploration, development and production of mineral properties, certain risks and, in particular, unexpected or unusual geological operating conditions including cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

Disclosure Controls and Procedures
Management is responsible for the preparation and integrity of the Financial Statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

Management is also responsible for the design of the Company's internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS.

Readers are cautioned that the Company is not required to certify the design and evaluation of its disclosure controls and procedures and internal controls over financial reporting and has not completed such an evaluation. The inherent limitations on the ability of the Company's certifying officers to design and implement on a cost-effective basis disclosure controls and procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected quarterly financial information prepared in accordance with IFRS for each of the Company's last eight quarters:

	Q4 2016 $	Q3 2016 $	Q2 2016[(2)] $	Q1 2016 $	Q4 2015[(3)] $	Q3 2015[(4)] $	Q2 2015[(5)] $	Q1 2015[(6)] $
Total Revenue [(1)]	(6,069)	13,691	47,807	8,757	1,643	1,339	4,143	12,445
Net Loss	(769,002)	(1,103,254)	(1,289,635)	(458,749)	(1,693,185)	(468,084)	(610,187)	(756,935)
Loss Per Share	(0.004)	(0.007)	(0.009)	(0.006)	(0.023)	(0.006)	(0.008)	(0.010)

(1) Revenue is derived from administration fees and interest income.

(2) The variation in the net loss for the three months ended June 30, 2016 to the previous quarter, was primarily due to recording termination payments to certain individuals upon the acquisition of Northair totaling $726,595. This is a contractual obligation payable over 24-30 months.

(3) The variation in net loss for the three months ended December 31, 2015 to the three months ended September 30, 2015, was primarily due to the impairment of marketable securities totaling $729,580; mineral properties totaling $254,391 and property investigation costs of $82,647.

(4) The variation in net loss for the three months ended September 30, 2015 to the three months ended June 30, 2015 related to decreased office and general costs of $34,205, decreased management fees of $8,000 and decreased professional fees of $20,896. The Company also recorded increased foreign exchange gain of $42,186 as compared to the prior period.

(5) The variation in net loss for the three months ended June 30, 2015 to the three months ended March 31, 2015 related to decreased office and general costs of $36,803, decreased regulatory and filing fees of $25,480, decreased mineral property investigation costs of $17,343 and decreased professional fees of $11,534. The Company also recorded decreased non-cash share based payment expenses of $91,220 as compared to the prior period.

(6) The variation in net loss for the three months ended March 31, 2015 to the three months ended December 31, 2014 was attributed to decreased professional fees of $45,481; an unrealized foreign exchange gain of $43,045, and significantly decreased mineral property investigation and impairment costs of $3,150,701 as compared to the fourth quarter of 2014, ended December 31, 2014.

SELECTED ANNUAL INFORMATION

The financial statements have been prepared in accordance with IFRS for fiscal years 2016, 2015, and 2014, and are expressed in Canadian dollars.

As at December 31:	**2016**	**2015**	**2014**
	$	$	$
Total Assets[1]	$ 76,652,739	$ 40,036,588	$ 35,349,095
Current Liabilities	729,167	488,035	416,852
Long-term Liabilities	144,665	-	-
Shareholders' Equity	75,778,907	39,548,555	34,932,243
Total Shareholders' Equity & Liabilities	$ 76,652,739	$ 40,036,588	$ 35,349,095

For the year ended December 31:	**2016**	**2015**	**2014**
	$	$	$
Total Revenue [2]	$ 64,806	$ 19,570	$ 28,337
Net Loss[3][4]	3,620,640	3,528,391	5,889,605
Basic and diluted loss per share	$ (0.025)	$ (0.046)	$ (0.089)
Weighted average number of common shares outstanding	142,590,488	76,366,958	66,064,625

(1) During the year ended December 31, 2016, the Company acquired Northair Silver which was deemed an asset acquisition for accounting puposes.

(2) Revenue is derived from administration fees and interest income

(3) Net Loss for 2015 included $729,580 in impairment of marketable securities (2014 - $nil); $271,919 in impairment to the carrying value of mineral properties (2014 - $3,215,783)

(4) Net Loss for 2015 included non-cash share based payments expense of $447,343 (2014 - $557,762)

FINANCING ACTIVITIES

The Company closed on July 28, 2016, a brokered private placement of units of the Company (the "Offering") with Haywood Securities Inc. (the "Agent"). Each unit (a "Unit") consisted of one common share and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "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. An aggregate of 12,937,500 Units including 675,000 Units were issued as a result of the exercise in full of the Agents' over-allotment option, were sold under the Offering at a price of $0.40 per Unit (the "Offering Price") for gross proceeds to the Company of $5,175,000. In addition, the Company concurrently closed on a non-brokered private placement of 2,135,790 Units at the Offering Price, which included participation by Pan American Silver Corp. to maintain its pro-rata ownership position, raising gross proceeds of $854,316. The aggregate total gross proceeds of the Offering and the non-brokered private placement are $6,029,316. The Company issued compensation warrants 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.

The Warrants have identical terms to the 23,103,969 listed warrants (the "Listed Warrants") of the Company currently outstanding and trading under the ticker 'TSXV: KTN.WT'. The net proceeds of the Offering will be used to fund the exploration and development of the Company's La Cigarra project in Mexico and for general working capital purposes.

Pan American completed a non-brokered private placement of a total of 15,884,459 common shares of the Company at a purchase price of $0.22 per shares for a total purchase price of $3,553,431. The initial tranche closed March 4, 2016 for a total of 9,090,909 common shares of the Company and the second tranche closed on April 29, 2016 with a further 6,793,550 common shares of the Company. As a result of the transaction, Pan American owns approximately 10% of the Company's issued and outstanding shares on a non-diluted basis. Subject to certain conditions, Pan American has the right to participate in any future equity offerings of the Company to maintain its pro-rata share percentage interest in the Company. Additionally, with the acquisition of Northair, the Company secured approximately $1,500,000 in cash and cash equivalents being held by Northair.

During the year ended December 31, 2015, the Company completed a non-brokered private placement for total gross proceeds of $1,315,950 by issuing an aggregate total of 4,386,500 units at a purchase price of $0.30 per unit. 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 private placement was completed in two tranches, with the first tranche of 3,586,500 units closed August 11, 2015 and the final tranche closed August 26, 2015, with the applicable warrants expiring on August 10, 2017 and August 26, 2017, respectively. The Company paid cash finder's fees to arm's length parties totaling $13,710 and issued 96,000 finders units (the "Finders Units”). The Finders Units consist of one common share and one non-transferable common share purchase warrant, expiring August 10, 2017.

The junior exploration industry continues to see a tightening in investment dollars as a result of the pressure on precious and base metal prices, which is adding pressure to junior explorers to ensure that dollars are effectively invested into their resource projects. The Company continues to focus on cost effectiveness and securing maximum value from dollars spent.

RESULTS OF OPERATIONS

Three month period ended December 31, 2016

The Company recorded a net loss of $769,002 or $0.004 per share (2015 – $1,693,185 or $0.023) based on a greater weighted average number of shares outstanding.

Corporate general and administrative expenditure totaled $765,165 (2015 – $634,518), which included a non-cash share based payment expense of $Nil (2015 – $50,158). Office and general costs totaling $406,376 (2015 – $352,964) includes the Company’s offices and staff in Vancouver and exploration offices in Hermosillo, Mexico and Kimberley, British Columbia. Also included in office and general is the Company’s promotional, travel and investor relations expenses, which decreased versus the prior comparable period and totaled $146,244 (2015 – $167,180). Management fees were $119,750 (2015 – $97,750). Professional fees increased over the prior comparable period totaling $145,354 (2015 – $87,009), which includes comparable directors’ fees.

For the three month period ended December 31, 2016, the Company recorded a foreign exchange gain of $139,437 (2015 – 6,574). The Company maintains foreign currency in both Mexican peso and US dollar accounts and incurs certain operating expenditures in each of those currencies, which coupled with consolidating its Mexican subsidiary gives rise to exchange risk. Property investigation and impairment of mineral properties costs totaling $189,752 (2015 - $337,038) were expensed in the period.

Year ended December 31, 2016

The Company recorded a net loss of $3,620,640 or $0.025 per share (2015 – $3,528,391 or $0.046) based on a greater weighted average number of shares outstanding.

Corporate general and administrative expenditure totaled $2,744,058 (2015 – $2,553,024), which included a non-cash share based payment expense of $69,386 (2015 – $447,343). Office and general costs totaling $1,427,048 (2015 – $1,189,770) includes the Company’s offices and staff in Vancouver and exploration offices in Hermosillo, Mexico and Kimberley, British Columbia. Certain expenses related to the acquisition of Northair were incurred, including termination of certain services at their former offices, such charges are non-recurring. Also included in office and general is the Company’s promotional, travel and investor relations expenses, which increased versus the prior comparable year and totaled $617,381 (2015 – $541,702) due to marketing activities, including additional activities related to the acquisition of Northair Silver and associated travel. Management fees were $389,000 (2015 – $359,000). Professional fees increased over the prior comparable period totaling $602,786 (2015 – $364,846), which includes additional fees related to corporate activities, comparable directors’ fees and additional consulting services related to investing potential business opportunities.

The Company recorded a foreign exchange loss of $71,163 (2015 – gain of $113,777). The Company maintains foreign currency in both Mexican peso and US dollar accounts and incurs certain operating expenditures in each of those currencies, which coupled with consolidating its Mexican subsidiary gives rise to exchange risk.

For the year ended December 31, 2016, the Company expensed property investigation and impairment costs totaling $414,286 (2015 – $390,868). During the year, the Company received a mining exploration refund from the Government British Columbia, totaling $76,403, which was related to previously impaired properties. The Company expensed $674,668 in termination benefit allowance related to the acquisition of Northair Silver. This amount will be paid to certain individuals during the next 30 months in relation to negotiated change of control provisions previously contracted with Northair.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, the Company had working capital of $6,816,849 (2015 - $981,735), with cash and cash equivalents totaling $5,789,615 (2015 - $730,682).

The current cash position will enable the Company to continue exploration efforts in Mexico and Canada, as well as to generate new properties and forming options or joint venture agreements to managing risk, in which partner companies explore and develop such projects in return for the right to earn an interest in them. The Company plans to obtain financing in the future primarily through further equity issuance, as well as through joint venturing and/or optioning out the Company’s properties to qualified mineral exploration companies. There can be no assurance that the Company will succeed in obtaining financing, now or in the future. Failure to raise additional financing on a timely basis could cause the Company to suspend its operation and eventually to forfeit or sell its interest in its mineral properties.

The Company's access to additional capital may not be available on terms acceptable to us or at all. As we expect our reliance on equity financings to continue into the future, these current market conditions could make it difficult or impossible for us to raise necessary funds to meet our capital requirements. If we are unable to obtain financing through equity investments, we will seek multiple solutions including, but not limited to, joint ventures, credit facilities or debenture issuances. We are also attuned to the effect of capital markets on many of our joint venture partners who may not be able to meet their obligations under their option or joint venture agreements.

All cash is held with Schedule A banks either in deposit accounts or guaranteed investment certificates, and the Company has no joint ventures with any parties that potentially create derivative or hedge risk.

OUTLOOK

The acquisition of Northair provided the Company with a second flagship project, namely "La Cigarra", which contains a current resource with significant expansion potential located in one of the most prolific silver mining districts of Mexico, the Parral Mining District. In conjunction with the Pan American agreement on the Promontorio Property, the Company will focus its financial resources and management effort on trying to advance the La Cigarra property toward economic assessment.

The Company's immediate priority is to materially increase the contained resource size and work on determining the scope and economic viability of two of its established silver assets in Mexico for ultimately pursuing future silver production. This includes Kootenay's carried to production interest with Pan American Silver Corp. on its high-grade La Negra silver discovery in Sonora State and the continued resource expansion and economic development of its La Cigarra silver deposit.

The Company will also continue to focus on additional acquisitions in the silver resource space, predominately in Mexico as long as accretive deals can be made and silver ounces can be purchased for less than their finding cost. The Company also continues to fund modest grass roots exploration that generates new mineral discoveries with the objective of seeking partners to finance the advancement of these projects. Work programs will also be initiated on other properties located in Mexico and Canada by the Company's Joint Venture partners.

For 2017, the Company plans on resource growth which encompasses:

- La Cigarra:
    - Prioritize 11 Peripheral Target Areas for Drill Testing;
    - Up to 7,500 meters estimated for Peripheral Targets including Ram and Soledad;
    - Up to 7,500 meters estimated for resource expansion along extension of La Cigarra Deposit.
- Joint Venture Programs:
    - Promontorio/La Negra Pan American 6500 meter drill program planned ;
    - Silver Fox Project, British Columbia, Canada, Antofagasta 3000-meter drill program;
    - Cervantes, Sonora, Mexico work program pending;
    - 2X's Fred, British Columbia, Canada work program pending.

The La Cigarra drill program will commence late April 2017, with a budget $1.5 million and will entail 7,500-meters of drilling and will focus on the expansion of the La Cigarra mineral resource by first targeting an 800-meter gap between the Las Venadas Zone and the south end of the resource (Las Carolinas Zone). Drilling will begin the Las Venadas Zone, where significant soil and rock geochemical anomalies and historic mine workings occur and work northward on trend towards the Las Carolinas Zone.

Work on Promontorio Property is being conducted by Pan American. The focus of the 2017 exploration program will be defining the potential size of the La Negra magmatic hydrothermal silver-lead breccia. The current 2017 exploration program budget is US$2.0 million and will entail approximately 6,500 meters of diamond drilling, geologic mapping and reconnaissance work to define additional prospective targets proximal to La Negra within the Promontorio project. Drilling is scheduled to start late in the second quarter 2017.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments include cash and cash equivalents, receivables and advances, marketable securities, advances and deposits, 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 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, accounts receivable in the form of tax credits from Canada and Mexico are regarded with minimal risk and receivables from exploration partners are regarded with moderate risk by the Company.

(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 through future equity contributions.

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.

(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, 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 with a predominate balance held in Canadian Dollars. 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 on the Company's net loss. 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 financial statements.

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off Balance Sheet Arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2016, officers of the Company earned management and consulting fees totaling $603,000 (2015 - $503,000) of which $224,000 (2015 - $144,000) has been allocated to deferred mineral property costs. These amounts were incurred in the ordinary course of business.

During 2008, the Company entered into a consulting agreements 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 consulting agreement provides for a base monthly fee of $15,000 payable to each party. During 2016, the monthly payments were voluntarily adjusted to $7,500 and $10,000 respectively, with the outstanding deferred liability recorded in accrued payables. Prior to the year ended December 31, 2016, the fees were returned to the agreed monthly fee. The consulting agreements were effective as of January 1, 2008 and extend in increments of 24 months, until terminated

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 $1,268,074 (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.

FUTURE ACCOUNTING STANDARDS

Future accounting standards issued but not yet adopted
The following amendments to existing standards were issued by the IASB and are effective for annual periods beginning on or after January 1, 2016. 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.

Critical Accounting Estimates
Please refer to Note 3 of the Company's Audited Financial Statements for the year ended December 31, 2016, for additional information under "Significant Accounting Policies".

Significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for depreciation of property and equipment, the recoverability of mineral property interests, determination of estimates of deferred tax assets and liabilities, and the determination of variables used in the calculations of share based payments. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

OTHER MD&A REQUIREMENTS

Additional Disclosure for Venture Companies without Significant Revenues
The following table sets forth a breakdown of material components of the office and general costs of the Company for the periods indicated.

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	$	$	$
Office	**779,861**	532,618	584,0 06
Telephone and postage	**40,620**	31,795	38,723
Travel and promotion	**617,381**	541,702	333,543

Disclosure of Outstanding Share Data

The following table states the diluted share capital of the Issuer as at April 28, 2017:

	Number Shares Outstanding (Diluted)
Outstanding as at December 31, 2015	**79,421,397**
Private placement	30,957,749
Issuance of share capital for acquisition mineral property interests	250,000
Issuance of share capital on the acquisition of Northair Silver Corp.	53,909,261
Issuance of share capital for purchase of La Cigarra NSR from Coeur Capital	9,629,091
Issuance of share capital for settlement of termination benefit allowance	337,228
Issuance of share capital on exercise of share purchase options	192,500
Issuance of share capital on exercise of share purchase warrants	150
Outstanding as at December 30, 2016 and April 28, 2017	**174,697,376**
Shares reserved for issuance pursuant share purchase warrants outstanding	45,759,767[(1)]
Shares reserved for issuance pursuant share purchase options outstanding	15,632,750[(2)]
DILUTED TOTAL	**236,089,893**

Notes

(1) As at April 28, 2017, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
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
26,872,141*	0.55	April 22, 2021
45,759,767		

* Warrants trade on the TSX.V under the symbol "KTN.WT".

(2) As at April 28, 2017, the Company had outstanding share purchase options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
297,500	0.80	June 13, 2017[(a)]
1,995,000	1.05	November 26, 2017
52,500	0.83	January 10, 2018[(a)]
439,250	0.63	March 4, 2018[(a)]
1,760,000	0.66	September 18, 2018
337,750	0.43	May 30, 2019[(a)]
1,050,000	0.47	September 8, 2019[(a)]
262,500	0.23	December 17, 2019[(a)]
348,250	0.23	January 26, 2020[(a)]
2,395,000	0.35	February 23, 2020
6,695,000	0.40	January 20, 2022[(b)]
15,632,750		

(a) Assumed from the Northair Acquisition.
(b) Granted on January 20, 2017.

Commitments

The Company has entered, jointly with other tenants, into an office lease, which commenced January 1, 2016 and expires July 31, 2018 at $3,259 per month. Additionally, the Company has entered, into an additional office lease, which commenced August 1, 2013 and expires July 31, 2018 at $3,182 per month. During the year ended December 31, 2015, the additional office lease was subleased to a third party until July 30, 2018 thereby reducing the Company's commitment to $339 per month.

Mineral property payments and project related commitments have been outlined under the property headings found in the 'Portfolio of Mineral Properties' section of this MD&A and the consolidated financial statements for the year ended December 31, 2016.

The Company recorded an allowance of termination benefits totaling $674,688 related to the certain individuals contracted to Northair. Of the total expense, $382,203 is outstanding as at December 31, 2016, of which $237,538 is due within the next 12 months and the balance of $144,665, thereafter.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Company. Based on an evaluation of the Company's disclosure controls and procedures as of the end period covered by this MD&A, management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

Cautionary note regarding preparation of Mineral Reserves and Resources

This MD&A uses the terms "reserves" and "resources" and derivations thereof. These terms have the meanings set forth in Canadian National Instrument 43-101 - Standards of Disclosure for Mineral Projects (NI 43-101) and the Canadian Institute of Mining, Metallurgy and Petroleum's Classification System (CIM Standards). NI 43-101 and CIM Standards differ significantly from the requirements of the United States Securities and Exchange Commission (the SEC). Under SEC Industry Guide 7, mineralization may not be classified as a "reserve" unless the determination has been made that is part of a mineral deposit, which could be economically and legally extracted or produced at the time of the reserve determination". In addition, the term "resource", which does not equate to the term "reserve", is not recognized by the SEC and the SEC's disclosure standards normally do not permit the inclusion of information concerning resources in documents filed with the SEC, unless such information is required to be disclosed by the law of the Company's jurisdiction of incorporation or of a jurisdiction in which its securities are traded. Accordingly, information concerning descriptions of mineralization and resources contained in this Management's Discussion and Analysis may not be comparable to information made public by US domestic companies subject to the reporting and disclosure requirements of the SEC.

Approval

This MD&A has been prepared by management with an effective date of April 28, 2017. The MD&A and the Consolidated Financial Statements were approved by the Board of Directors of the Company.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on the Company's website at www.kootenaysilver.com and on SEDAR at www.sedar.com