



**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the period ended**

**June 30, 2019**

**and**

**June 30, 2018**

**(Unaudited)**

**(Expressed in Canadian dollars)**

# **Notice of no Auditor review of Interim Financial Statements**

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

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

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

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**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,899,050	\$ 1,568,245
Receivables and advances (Note 9, 12)	416,310	537,011
Prepaid expenses	96,613	51,948
Marketable securities (Note 5)	818,445	595,614
	<b>7,230,418</b>	<b>2,752,818</b>
<b>Non-current assets:</b>		
Fixed assets (Note 6)	985,618	1,004,385
Exploration advances and deposits	110,384	82,384
Exploration and evaluation assets (Note 7)	73,019,138	72,629,133
<b>Total assets</b>	<b>\$ 81,345,558</b>	<b>\$ 76,468,720</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (Note 12)	\$ 191,288	\$ 331,118
Exploration program advance	244,904	263,893
Current portion of termination benefit liability (Note 4)	-	30,268
	<b>436,192</b>	<b>625,279</b>
<b>Shareholders' equity:</b>		
Share capital (Note 8)	87,243,570	83,828,787
Reserves (Note 8)	34,470,239	30,983,233
Accumulated other comprehensive loss (Exhibit 4)	4,793,406	5,766,629
Deficit	(45,597,849)	(44,735,208)
<b>Total shareholders' equity</b>	<b>80,909,366</b>	<b>75,843,441</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 81,345,558</b>	<b>\$ 76,468,720</b>

Going concern (Note 1)  
Commitments (Note 14)

Approved on Behalf of the Board:

"James McDonald"

Director

"Jon Morda"

Director

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF LOSS

Exhibit 2

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>General and administrative expenses</b>				
Office and general (Note 12)	\$ 284,213	\$ 385,453	\$ 448,786	\$ 659,788
Option based compensation (Note 8)	102,932	39,105	102,932	87,987
Professional fees	77,306	83,823	152,836	223,055
Management fees (Note 12)	48,250	48,250	96,500	96,500
Rent	22,248	25,778	40,994	51,857
Regulatory and filing fees	11,108	3,812	19,922	25,367
Depreciation (Note 6)	10,340	8,927	22,716	20,461
<b>Loss before exploration and other items</b>	<b>556,397</b>	<b>595,148</b>	<b>884,686</b>	<b>1,165,015</b>
<b>Exploration</b>				
Mineral property investigation (Note 7)	41,715	49,636	93,667	66,018
	<b>41,715</b>	<b>49,636</b>	<b>93,667</b>	<b>66,018</b>
<b>Other Items</b>				
Foreign exchange (gain)/loss	(3,256)	116,134	31,166	(10,115)
Administration income	-	-	(18,019)	(2,666)
IVA recovery	(76,070)	-	(76,070)	(51,453)
Finance income	(39,620)	(31,174)	(52,789)	(53,609)
	<b>(118,946)</b>	<b>84,960</b>	<b>(115,712)</b>	<b>(117,843)</b>
<b>Loss for the period</b>	<b>479,166</b>	<b>729,744</b>	<b>862,641</b>	<b>1,113,190</b>
<b>Basic and diluted loss per share (Note 8)</b>				
	\$ (0.002)	\$ (0.004)	\$ (0.004)	\$ (0.006)
<b>Weighted average number of shares outstanding</b>				
	<b>245,751,521</b>	<b>194,973,614</b>	<b>228,141,725</b>	<b>194,909,176</b>

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Loss for the period</b>	\$ 479,166	\$ 729,744	\$ 862,641	\$ 1,113,190
Other comprehensive loss/(income)				
Fair value changes to marketable securities arising during the period	(111,159)	43,000	(222,832)	188,940
Foreign currency translation differences of foreign operations	734,838	(698,667)	1,196,055	(1,310,323)
Total other comprehensive loss/(income)	623,679	(655,667)	973,223	(1,121,383)
<b>Comprehensive loss/(income) for the period</b>	\$ 1,102,845	\$ 74,077	\$ 1,835,864	\$ (8,193)

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Exhibit 4

	Number of Shares	Capital Stock	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
<b>Balance, December 31, 2017</b>	194,246,856	\$ 83,681,730	\$ 30,804,341	\$ 3,577,012	\$ (42,268,786)	\$ 75,794,297
Shares issued, net of issuance costs	545,000	76,757	28,885	-	-	105,642
Acquisition of mineral properties	430,000	70,300	-	-	-	70,300
Option based compensation	-	-	139,662	-	-	139,662
Fair value changes to marketable securities arising during the period	-	-	-	(188,940)	-	(188,940)
Foreign currency translation differences of foreign operations	-	-	-	1,310,323	-	1,310,323
Loss for the period	-	-	-	-	(1,113,190)	(1,113,190)
<b>Balance, June 30, 2018</b>	195,221,856	\$ 83,828,787	\$ 30,972,888	\$ 4,698,395	\$ (43,381,976)	\$ 76,118,094
<b>Balance, December 31, 2018</b>	195,221,856	83,828,787	30,983,233	5,766,629	(44,735,208)	75,843,441
Shares issued, net of issuance costs	50,309,511	3,388,953	3,315,453	-	-	6,704,406
Acquisition of mineral properties	242,000	25,830	-	-	-	25,830
Option based compensation	-	-	171,553	-	-	171,553
Fair value changes to marketable securities arising during the period	-	-	-	222,832	-	222,832
Foreign currency translation differences of foreign operations	-	-	-	(1,196,055)	-	(1,196,055)
Loss for the period	-	-	-	-	(862,641)	(862,641)
<b>Balance, June 30, 2019</b>	245,773,367	\$ 87,243,570	\$ 34,470,239	\$ 4,793,406	\$ (45,597,849)	\$ 80,909,366

- see accompanying notes

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Exhibit 5				
<b>Cash flows from operating activities</b>				
Loss for the period	\$ (479,166)	\$ (729,744)	\$ (862,641)	\$ (1,113,190)
Add items not involving cash:				
Option based compensation	102,932	39,105	102,932	87,987
Depreciation	10,340	8,927	22,716	20,461
	<b>(365,894)</b>	<b>(681,712)</b>	<b>(736,993)</b>	<b>(1,004,742)</b>
Changes in non-cash working capital balances:				
Receivable and advances	(53,856)	(31,295)	124,831	(30,283)
Prepaid expenses	33,252	98,483	(44,541)	168,869
Accounts payable and accrued liabilities	(135,179)	27,233	(171,299)	(421,997)
	<b>(521,677)</b>	<b>(587,291)</b>	<b>(828,002)</b>	<b>(1,288,152)</b>
<b>Cash flows from financing activities</b>				
Shares issued, net of share issuance costs	-	-	6,704,406	(93,743)
Receipt of exploration advance	-	507,900	-	507,900
	-	507,900	6,704,406	414,157
<b>Cash flows from investing activities</b>				
Investment in exploration and evaluation assets	(811,897)	(665,876)	(1,189,283)	(1,341,268)
Investment in equipment	-	-	(1,533)	(3,442)
	<b>(811,897)</b>	<b>(665,876)</b>	<b>(1,190,816)</b>	<b>(1,344,709)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>25,614</b>	<b>119,029</b>	<b>(357,183)</b>	<b>131,537</b>
<b>Net change in cash and cash equivalents during the period</b>	<b>(1,307,960)</b>	<b>(626,238)</b>	<b>4,330,805</b>	<b>(1,580,156)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>7,207,010</b>	<b>3,914,438</b>	<b>1,568,245</b>	<b>4,868,356</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 5,899,050</b>	<b>\$ 3,288,200</b>	<b>\$ 5,899,050</b>	<b>\$ 3,288,200</b>

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

- see accompanying notes -



# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS June 30, 2019 and 2018

### 1 Reporting Entity:

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

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

### Going Concern

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

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. During the six months ended June 30, 2019, the Company closed a private placement and raised total gross proceeds of \$7,043,332 (Note 8). While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

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

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

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

	June 30, 2019	December 31, 2018
Deficit	\$ 45,597,849	\$ 44,735,208
Working capital	\$ 6,794,226	\$ 2,127,539

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

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**2 Basis of Presentation:**

**Statement of Compliance**

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

The interim Financial Statements are for the three and six months ended 30 June 2019 and are presented in Canadian dollars, which is the functional currency of the parent company. They have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). They do not include all the information required in annual financial statement in accordance with IFRS and should be read in conjunction with the consolidated financial statements for the year ended 31 December 31, 2018.

The policies applied in these consolidated interim financial statements are consistent with the accounting policies disclosed in Notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2018. These consolidated interim financial statements should be read in conjunction with the Company's audited consolidated statements for the year ended December 31, 2018.

These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on August 19, 2019.

**Functional and presentation currency**

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

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

**3 Significant Accounting Policies:**

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

**Basis of measurement**

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

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

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

**Basis of consolidation**

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

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

**Critical accounting estimates and judgements**

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

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

(i) Exploration and evaluation assets

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

(ii) Decommissioning liabilities

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

(iii) Share-based payments

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

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

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

**Critical accounting estimates and judgements** (continued)

(iv) Taxes

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

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

- (i) assessment of the Company's ability to continue as a going concern; and
- (ii) determination of functional currency.

**Foreign currency transactions**

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

**Cash and cash equivalents**

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

**Current and future accounting standards**

Standards issued or amended and effective in the current year:

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. Adoption of the standard did not have a material impact on the Company's financial statements.

**4 Termination Benefit Liability:**

On April 21, 2016, the Company completed the acquisition of all the outstanding common shares of Northair Silver Corp. The Company expensed \$674,688 for the allowance of termination benefits related to the certain individuals under management consulting contracts with Northair. Such agreements did not meet the criteria of capitalization as they were deemed post-combination services and were expensed upon completion of the acquisition. During the six months ended June 30, 2019 the final instalments of the termination benefit were paid.

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**5 Marketable Securities:**

As at June 30, 2019, the fair value of marketable securities held was \$818,445 (2018 – \$595,614). These relate to investments in publicly traded companies which have issued to the Company common shares in consideration of various property earn-in option agreements. During the six months ended June 30, 2019, the Company recorded in other comprehensive loss, a gain of \$222,832 (2018 – loss \$188,940) for fair value adjustments to marketable securities.

**6 Fixed Assets:**

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Land	Total
<b>Cost</b>						
Balance December 31, 2017	307,700	66,485	246,180	60,321	803,304	1,483,990
Addition	29,329	-	59,027	-	-	88,356
Disposal	(35,214)	-	-	-	-	(35,214)
Effect of foreign exchange	7,878	-	5,400	-	-	13,278
Balance December 31, 2018	309,693	66,485	310,607	60,321	803,304	1,550,410
Addition	-	-	1,528	-	-	1,528
Disposal	-	-	(10,000)	-	-	(10,000)
Effect of foreign exchange	6,781	-	4,935	-	-	11,716
Balance June 30, 2019	<b>\$ 316,474</b>	<b>\$ 66,485</b>	<b>\$ 307,075</b>	<b>\$ 60,321</b>	<b>\$ 803,304</b>	<b>\$1,553,659</b>
<b>Accumulated Depreciation</b>						
Balance December 31, 2017	267,267	52,033	149,403	53,345	-	522,047
Depreciation for the year	17,648	4,455	12,406	6,344	-	40,853
Disposal	(34,472)	-	-	-	-	(34,472)
Effect of foreign exchange	9,867	516	6,582	632	-	17,597
Balance December 31, 2018	260,310	57,003	168,391	60,321	-	546,025
Depreciation for the period	12,915	2,227	7,574	-	-	22,716
Disposal	-	-	(7,599)	-	-	(7,599)
Effect of foreign exchange	1,578	-	1,321	-	-	2,899
Balance June 30, 2019	<b>\$ 274,803</b>	<b>\$ 59,231</b>	<b>\$ 169,686</b>	<b>\$ 60,321</b>	<b>\$ -</b>	<b>\$ 564,041</b>
<b>Carrying value</b>						
December 31, 2018	\$ 49,383	\$ 9,482	\$ 142,216	\$ -	\$ 803,304	\$ 1,004,385
June 30, 2019	<b>\$ 41,671</b>	<b>\$ 7,254</b>	<b>\$ 137,389</b>	<b>\$ -</b>	<b>\$ 803,304</b>	<b>\$ 989,618</b>

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**7 Exploration and evaluation assets:**

	MEXICO							Mexico Total	CANADA			Canada Total	2019 Total	2018 Total
	Promontorio	La Cigarra	Columba	Copalito	Generative Anomalies	Cervantes*	San Diego*		Nechako Region	Silver Fox	Other			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition Costs</b>														
Balance, beginning	3,658,642	30,340,334	33,172	34,383	609,635	-	148,868	<b>34,825,034</b>	168,380	59,250	1,419,818	<b>1,647,448</b>	<b>36,472,482</b>	36,278,378
Incurred	-	132,842	36,150	69,209	49,797	-	-	<b>287,998</b>	-	-	108,928	<b>108,928</b>	396,926	236,904
Balance, ending	<b>3,658,642</b>	<b>30,473,176</b>	<b>69,322</b>	<b>103,592</b>	<b>659,432</b>	-	<b>148,868</b>	<b>35,113,032</b>	<b>168,380</b>	<b>59,250</b>	<b>1,528,746</b>	<b>1,756,376</b>	<b>36,869,408</b>	36,515,282
<b>Exploration Expenditures</b>														
Balance, beginning	31,862,162	4,707,069	126,528	33,645	6,906,030	244,394	313,831	<b>44,193,659</b>	546,881	1,955,487	6,362,881	<b>8,865,249</b>	<b>53,058,908</b>	51,118,898
Assaying and Lab	-	48,311	-	-	-	-	-	<b>48,311</b>	1,481	893	654	<b>3,028</b>	<b>51,339</b>	201,634
Camp Costs	1,391	12,192	352,752	-	-	-	-	<b>366,335</b>	-	-	-	-	<b>366,335</b>	119,524
Drafting	-	-	-	2,357	-	-	-	<b>2,357</b>	3,600	4,300	11,505	<b>19,405</b>	<b>21,762</b>	63,360
Drilling	-	32,990	-	-	-	-	-	<b>32,990</b>	-	2,413	-	<b>2,413</b>	<b>35,403</b>	511,347
Geological mapping	-	-	319	-	-	-	-	<b>319</b>	-	-	765	<b>765</b>	<b>1,084</b>	31,096
Geophysics	-	-	-	-	-	-	-	-	14,100	-	16,246	<b>30,346</b>	<b>30,346</b>	18,000
Maintenance	-	-	-	-	5,205	-	-	<b>5,205</b>	-	-	22,676	<b>22,676</b>	<b>27,881</b>	307,185
Miscellaneous	3,402	-	-	-	7,801	-	-	<b>11,203</b>	1,800	-	-	<b>1,800</b>	<b>13,003</b>	15,273
Geological Consulting and Prospecting	12,926	108,652	139,069	99,604	3,427	-	-	<b>363,678</b>	5,488	-	65,904	<b>71,392</b>	<b>435,070</b>	816,302
Rock Sampling	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Metallurgical testing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Incurred	<b>17,719</b>	<b>202,145</b>	<b>492,140</b>	<b>101,961</b>	<b>16,433</b>	-	-	<b>830,398</b>	<b>26,469</b>	<b>7,606</b>	<b>117,750</b>	<b>151,825</b>	<b>982,223</b>	2,083,721
Balance, ending	31,879,881	4,909,214	618,668	135,606	6,922,463	244,394	313,831	<b>45,024,057</b>	573,350	1,963,093	6,480,631	<b>9,017,074</b>	<b>54,041,131</b>	53,202,619
Total properties balance	<b>35,538,523</b>	<b>35,382,390</b>	<b>687,990</b>	<b>239,198</b>	<b>7,581,895</b>	<b>244,394</b>	<b>462,699</b>	<b>80,137,089</b>	<b>741,730</b>	<b>2,022,343</b>	<b>8,009,377</b>	<b>10,773,450</b>	<b>90,910,539</b>	89,717,901
Recovery of costs	-	-	-	-	(3,466,284)	(102,257)	(106,898)	<b>(3,675,439)</b>	-	(1,509,078)	(2,985,456)	<b>(4,494,534)</b>	<b>(8,169,973)</b>	(8,094,666)
Mineral exploration refund	-	-	-	-	-	-	-	-	(78,344)	(70,650)	(236,551)	<b>(385,545)</b>	<b>(385,545)</b>	(385,545)
Proceeds from sale	-	-	-	-	-	-	-	-	-	-	(230,000)	<b>(230,000)</b>	<b>(230,000)</b>	(230,000)
Option payment received	(883,166)	-	-	-	(171,790)	(128,103)	-	<b>(1,183,059)</b>	-	-	(121,000)	<b>(121,000)</b>	<b>(1,304,059)</b>	(1,304,059)
Impaired or disposed	(537,744)	-	-	-	(2,634,202)	(14,034)	(355,801)	<b>(3,541,781)</b>	(555,187)	-	(3,392,497)	<b>(3,947,684)</b>	<b>(7,489,465)</b>	(7,556,460)
Change in foreign currency translation	(142,268)	(140,069)	-	-	(30,022)	-	-	<b>(312,359)</b>	-	-	-	-	<b>(312,359)</b>	481,962
Carrying value mineral properties	<b>33,975,345</b>	<b>35,242,321</b>	<b>687,990</b>	<b>239,198</b>	<b>1,279,597</b>	-	-	<b>71,424,451</b>	<b>108,199</b>	<b>442,615</b>	<b>1,043,873</b>	<b>1,594,687</b>	<b>73,019,138</b>	72,629,133

\*Earn-in option agreement

**KOOTENAY SILVER INC.**  
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**7 Exploration and evaluation assets (continued):**

**La Cigarra** – Chihuahua State, Mexico

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

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

On April 19, 2016, the Company purchased from Coeur Capital a 2.5% net smelter royalty ("NSR Acquisition") that it held on the La Cigarra project for total consideration of US\$2,500,000 of which US\$500,000 (\$646,025) was paid in cash and US\$2,000,000 was completed through the issuance of 9,629,091 common shares (valued at \$2,648,000) of the Company. The NSR Acquisition and transaction costs have been recorded as La Cigarra acquisition costs.

**Promontorio** – Sonora State, Mexico

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

A 1% net smelter royalty is payable to Siete on the core claims of Promontorio of which the Company can purchase 50% of this net smelter royalty at any time for US\$500,000. The Company also has a right of first refusal to purchase the remaining 50% of this royalty. Additionally, a 2% net smelter royalty is payable to ECO on the core and surrounding claims. The Company may upon commencement of commercial production or sooner purchase 50% of this net smelter return for US\$1,000,000. The Company also has a right of first refusal on the remaining 50% of this royalty.

On March 4, 2016, the Company formalized and closed an option agreement with Pan American Silver Corporation ("Pan American") and its wholly owned Mexican subsidiary Compania Minera Dolores S.A. de C.V. ("Dolores") whereby the Company and Minera JM 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 in consideration for: (a) an aggregate total of US\$8,000,000 of exploration and development expenditures on MJM's properties in the Promontorio Mineral Belt and (b) cash payments totaling US\$8,050,000 to MJM over a 4-year period. All expenditures from earn in until production are provided by Pan American. Cash payments totalling US\$650,000 have been received. The Company announced receipt of termination of the option agreement from Pan American on June 7, 2019.

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

**Columba** – Chihuahua State, Mexico

On November 12, 2018, the Company entered into an option agreement to acquire an undivided interest in the Columba concession. Under the terms of the agreement, the Company must make total cash payments of US\$3,290,000 within a four-year period with an initial payment of US\$15,000 and first and second years payments totalling US\$75,000 and US\$150,000 respectively. The Agreement includes a work commitment of US\$250,000 by the first anniversary and US\$750,000 by the second anniversary of the Agreement. Upon earn-in the vendors retain a 2% n.s.r. of which 1% can be purchased by the Company for US\$750,000.

**Copalito** – Sinaloa, Mexico

On April 19, 2018, the Company entered into an option agreement to acquire an undivided interest in the Copalito concession. Under the terms of the agreement, the Company must make total staged cash payments of US\$985,000 within a four-year period with an initial payment of US\$30,000 on signing. Payments totalling US\$65,000 were made during the current year. Upon earn-in the vendors retain a 0.5% n.s.r. A finders fee of 100,000 common shares with a fair market value of \$15,500 and a cash payment of \$10,000 were paid in connection with the option agreement.

**San Diego** – Northwest Sonora, Mexico

On April 8, 2014, the Company entered into an option agreement to acquire an undivided interest in the San Diego concession. Under the terms of the original agreement, the Company must issue 100,000 common shares of the Company; and make total cash payments of US\$480,000 within a four-year period. The Company amended the agreement effective November 21, 2017, and extended the option agreement terms to December 31, 2020, with total cash payments remaining of US\$335,000, all other terms remained unchanged. As at December 31, 2018, the Company has made total cash payments of US\$105,000 and has issued 100,000 shares with a fair value of \$45,000. A 2% net smelter return is payable on the San Diego concession, which can be purchased by the Company for US\$750,000 for each percentile. The Company terminated the option agreement during the year ended December 31, 2018 and recorded an impairment expense of \$355,797.

**Cervantes** – Sonora State, Mexico

On July 25, 2015, the Company entered into an option agreement with Aztec Metals Corp. ("Aztec"), whereby the Company granted Aztec the right to earn up to a 100% interest in the Cervantes Gold/Copper project. The terms of the agreement allow Aztec to earn a 65% interest by: spending an aggregate total of US\$1.5 million in exploration expenditures by July 25, 2019; paying an aggregate total of US\$150,000 in staged payments to the Company by July 25, 2019; and issuing an aggregated total of 1,000,000 common shares in staged payments on each anniversary to the Company of which 500,000 were issued as at March 31, 2019. Subsequent to the six months ended June 30, 2019, the Company received the final share installment and the remaining US\$50,000 cash payment.



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**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**7 Exploration and evaluation assets** *(continued)*:

**Cervantes** – Sonora State, Mexico *(continued)*

Upon earning the initial 65% interest and within 60 days of such date, Aztec will have the right to elect and acquire the remaining 35% interest (the “Second Option”) by completing a preliminary economic assessment report (“Scoping Study”) by the fifth anniversary date (July 25, 2020), paying US\$5.00 per gold or gold equivalent ounce of estimated recoverable, payable gold or gold equivalent ounce of the contained metal for the measured, indicated and inferred resources based on the Scoping Study. On acquisition by Aztec of 100% interest, Kootenay will receive a 2.5% net smelter royalty. If Aztec decide not to exercise the Second Option, a joint venture will be formed to develop the project. Effective September 30, 2016, the obligations of the option agreement were assigned to Aztec Minerals Corp. from Aztec. Subsequent to the six months ended June 30, 2019, the Company received notice of Aztec of their intention to enter into a joint venture agreement.

**Copley Property** – Nechako Plateau, British Columbia

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

**Silver Fox** – Southern British Columbia

On September 29, 2015, the Company entered into an option agreement with a wholly-owned subsidiary of Antofagasta plc (“Antofagasta”) granting Antofagasta the option to earn up to an 80% interest in the Silver Fox property located in South Eastern British Columbia. The terms of the agreement grant Antofagasta the right to earn a 65% interest (“First Option”) by funding or incurring an aggregate total of US\$2.5 million (the “First Option Expenditures”) in exploration expenditures on or before September 29, 2021, amended from September 29, 2019. Antofagasta has the right to accelerate the First Option Expenditures. Antofagasta will have the right to acquire a further 15% interest (“Second Option”) by incurring an additional aggregate total US\$1.65 million in exploration expenditures within two years of the First Option exercise date. If Antofagasta decides not to exercise the Second Option, a joint venture based on a 65/35% interest will form under the Agreement in relation to the property. During the three months ended June 30, 2019, Antofagasta terminated the option agreement.

Under the terms of the Underlying Option Agreement, the Company can acquire a 100% interest in Silver Fox by issuing 100,000 common shares to Kennedy by July 3, 2018 (the “Underlying Option”) of which 100,000 common shares have been issued with a fair value of \$26,750 including 50,000 common shares with a fair value of \$8,500 issued during the year ended December 31, 2018. The Silver Fox is subject to a 2.0% net smelter returns royalty in favour of Kennedy (the “Underlying Royalty”). The Underlying Royalty is subject to a purchase right in favour of the Company, exercisable by the Company by paying \$500,000 for each 0.5% of the Underlying Royalty.

**KOOTENAY SILVER INC.**  
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**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**7 Exploration and evaluation assets** *(continued)*:

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

The Two Times Fred property was optioned to the Company effective July 1, 2014, pursuant to a grubstake agreement. To maintain its option, the Company must make total cash payments of \$80,000; issue an aggregate total of 230,000 common shares and make a cash payment of \$5 per metre drilled to a maximum of 100,000 metres. Under the Kennedy grubstake agreement, a 2% NSR exists and can be purchased by the Company for \$500,000 per each one-half (0.5%) percentile. The Company has made total cash payments of \$35,000 and issued 195,000 shares with a fair value of \$49,500, included in the respective amounts are 105,000 shares with a fair value of \$17,800 issued during the year ended December 31, 2018. The final share payment of 35,000 will be paid subsequent to June 30, 2019.

During the year ended December 31, 2011, the Company optioned the Fox property. To maintain its option, the Company made total cash payments of \$80,000; issued an aggregate total of 130,000 common shares and if applicable make a cash payment of \$5 per metre drilled to a maximum of 100,000 metres.

**Mark Property** – Southern British Columbia

On June 16, 2017, the Company entered into an option agreement with a wholly-owned subsidiary of Antofagasta Minerals S.A. (“Antofagasta S.A.”) granting Antofagasta S.A. the option to earn up to a 65% interest in the Mark Project located in South Eastern British Columbia. The terms of the agreement grant Antofagasta the right to earn a 65% interest by funding or incurring an aggregate total of US\$3 million in exploration expenditures (the “Expenditures”) on or before June 16, 2021. Upon exercising their earn-in, a joint venture based on a 65/35% interest will be formed under the Agreement in relation to the property. During the three months ended June 30, 2019, Antofagasta terminated the option agreement.

On June 7, 2017, the Company exercised its right under a Grub Stake Agreement (the “Grub Stake Agreement”) with the Kennedy Group to acquire a 100% interest in the Mark Project (the “Acquisition”). The Mark Project is comprised of 17 mineral tenures totaling approximately 14,093 hectares. Pursuant to the terms of the Grub Stake Agreement, in order to complete the Acquisition, the Company issued 100,000 common shares with a fair value of \$15,500 to the Kennedy Group. Following completion of the Acquisition, the Kennedy Group will retain an underlying 1% net smelter returns royalty, which can be purchased by the Company, in whole or in part, for \$1,000,000 per each one-half percent (0.5%).

**Meachen Bend Project** – British Columbia

On October 29, 2018, the Company announced it had entered an option agreement to acquire a 100% interest in the Meachen Bend Project (the “Meachen Property”). Pursuant to the terms of the option agreement, the Company must issue 500,000 common shares and staged cash payments totaling \$100,000 over 4 years upon receipt of TSXV approval, the Company issued 100,000 common shares with a fair value of \$9,500 and paid \$15,000 in cash payments during the six months ended June 30, 2019. Following completion of the Acquisition, the Kennedy Group will retain an underlying 1.5% net smelter returns royalty, of which, one-half percent (0.5%) can be purchased by the Company, for \$500,000.

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**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**7 Exploration and evaluation assets (continued):**

*Property Investigation and Impairment*

During the six months ended June 30, 2019, the Company expended \$93,667 (2018 - \$66,018) related to other property investigation expense, which is related to mineral properties located in both Mexico and Canada. Once the Company has made its evaluations, the properties will be either be abandoned or acquired.

**Title to mineral property interests**

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

**8 Share Capital and Reserves:**

**Authorized:**

The authorized share capital is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. All issued shares, consisting of only common shares are fully paid. There were 245,773,367 fully paid common shares on issue as at June 30, 2019.

On March 5, 2019, the Company closed a non-brokered private placement for 50,309,511 units (the "Units") at a price of \$0.14 per Unit for gross proceeds of \$7,043,332. Each Unit in the private placement consisted of one common share and one common share purchase warrant ("Warrant") totalling 50,309,511 warrants. Each Warrant entitles the holder to acquire one common share at an exercise price of \$0.20 until March 5, 2024.

On January 5, 2018, the Company closed the final tranche of its non-brokered private placement raising total \$109,000 consisting of 545,000 units (the "Unites") at a price of \$0.20 per Unit. Each Unit consists of one common share ("Common Share") and one-half of a transferable common share purchase warrant ("Warrant") totalling 272,500 warrants. Each Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.30 until January 5, 2021.

**Options and Warrants:**

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

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2017	36,646,881	\$ 0.48	13,340,250	\$ 0.43
Granted	272,500	0.30	-	-
Expired/cancelled	-	-	(2,251,750)	0.66
Outstanding, December 31, 2018	36,919,381	\$ 0.48	11,088,500	\$ 0.39
Granted	50,309,511	0.20	8,450,000	0.14
Expired	-	-	(337,750)	0.43
<b>Outstanding, June 30, 2019</b>	<b>87,228,892</b>	<b>\$ 0.32</b>	<b>19,200,750</b>	<b>\$ 0.28</b>

**KOOTENAY SILVER INC.**  
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**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**8 Share Capital and Reserves** *(continued)*:

**Warrants**

As at June 30, 2019, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Warrants	Exercise Price	Expiry Date
26,872,141	\$ 0.55	April 22, 2021
9,774,740	0.30	December 13, 2020
272,500	0.30	January 5, 2021
50,309,511	0.20	March 5, 2024
<b>87,228,892</b>		

The weighted average remaining life of the outstanding warrants is 3.43 years (2018 – 2.72 years). The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in reserves until exercised, at which time they are transferred into share capital.

The following assumptions were used for the Black-Scholes valuation of warrants issued during the six months ended June 30, 2019 and year ended December 31, 2018:

	<b>2019</b>	2018
Risk-free interest rate	<b>1.75%</b>	1.64%
Expected life of warrants	<b>60 months</b>	36 months
Fair value per warrant issued	<b>\$0.066</b>	\$0.106
Annualized volatility	<b>80%</b>	86%
Dividend rate	<b>0.00%</b>	0.00%

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

**Options**

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

During the three months ended June 30, 2019, the Company granted 8,450,000 share purchase options at an exercise price of \$0.14 expiring on June 26, 2024. The share purchase options vest in increments of 25% with the 25% vested on grant date and the remaining vesting in three equal increments each six months thereafter.

During the six months ended June 30, 2019, option based compensation totalling \$171,553 of which \$68,621 (2018 - \$51,675) was capitalized under mineral properties and \$102,932 (2018 - \$87,987) was expensed. As at June 30, 2019, 12,863,250 options (2018 – 11,174,750) with a weighted average exercise price of \$0.35 per option (2018 - \$0.43) were fully vested and exercisable.

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

As at June 30, 2019, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

	Number of Options	Exercise Price	Expiry Date
	1,050,000	0.47	September 8, 2019 <sup>(1)</sup>
	262,500	0.23	December 17, 2019 <sup>(1)</sup>
	348,250	0.23	January 26, 2020 <sup>(1)</sup>
	2,395,000	0.35	February 23, 2020
	6,695,000	0.40	January 20, 2022
	8,450,000	0.14	June 26, 2024
	<b>19,200,750</b>		

<sup>(1)</sup> Assumed from the Northair acquisition.

The weighted average remaining life of the options is 3.2 years (2018 – 2.39 years). For stock options granted to employees, officers, directors and consultants, share based payment expense is measured at fair value and recognized over the vesting period from the date of grant. The fair value of stock options granted during the six months ended June 30, 2019 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2019
Risk-free interest rate	1.50%
Expected life of options	5 years
Fair value per option granted	\$0.079
Annualized volatility	81.5%
Dividend rate	0.00%

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

**Loss per share**

The calculation of basic loss per share for the six months ended June 30, 2019 was based on the loss of \$862,641 (2018 - \$1,113,190) and the weighted average number of common shares outstanding of 228,141,725 (2018 – 194,909,176), respectively. The Company does not have any instruments that would give rise to a dilution effect as of June 30, 2019 and 2018. As at June 30, 2019, the Company has 19,200,750 options and 87,228,892 warrants that are anti-dilutive and thus, not included in diluted loss per share.

**9 Receivables:**

The Company's receivables are as follows:

	June 30, 2019	December 31, 2018
IVA/GST receivable	<b>\$ 336,679</b>	\$ 521,022
Other receivable	<b>79,631</b>	15,989
Advances and reclamation bonds	<b>78,500</b>	78,500
Total	<b>\$ 494,810</b>	\$ 615,511

**KOOTENAY SILVER INC.**  
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**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**10 Income Taxes:**

As at December 31, 2018, the Company has non-capital loss carry forwards for Canadian tax purposes of approximately \$24,614,675 (2017: \$22,739,507) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiration	Total
2026 \$	405,178
2027	630,148
2028	1,176,346
2029	2,124,656
2030	2,320,591
2031	2,403,406
2032	2,409,531
2033	2,158,414
2034	1,882,317
2035	2,002,003
2036	2,998,465
2037	2,021,113
2038 \$	2,082,507
<b>Total</b>	<b>24,614,675</b>

As at December 31, 2018, the Company has net capital loss carry forwards for Canadian tax purposes of approximately \$436,706 (2017: \$436,706) which may be carried forward indefinitely to apply against future capital gains for Canadian income tax purposes, subject to final determination by the tax authorities.

As at December 31, 2018, the Company had non-capital loss carry forwards for Mexican income tax purposes of approximately \$1,288,745 from the Company's Mexico subsidiaries available to reduce taxable income in Mexico expiring in various years from 2025 to 2028.

Expiry	Mexico Total
2025 \$	635,554
2026	5,458
2027	419,003
2028	228,730
<b>Total \$</b>	<b>1,288,745</b>

**11 Supplemental Disclosure of Cash and Non-Cash Activities:**

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

	2019	2018
Option based compensation capitalized in mineral property	\$ 68,621	\$ 51,675
Issuance of share capital for acquisition of mineral property interests	25,830	70,300
Mineral property recoveries included in receivables and advances	-	137,401
Mineral property costs included in accounts payable	\$ 187,846	\$ 57,129

**KOOTENAY SILVER INC.**  
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**12 Related Party Transactions and Balances:**

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

	2019	2018
Management fees charged by companies controlled by a director and/or officers	\$ 196,500	\$ 196,500
Consulting, administrative and geological fees charged by a company with common officers	60,000	60,000
	\$ 256,500	\$ 256,500

The Company has entered into a consulting agreement dated January 1, 2008 with Makwa Exploration Ltd. ("Makwa") for the services of James McDonald to act as the Company's President and CEO. The base monthly fee for Makwa was amended effective January 1, 2017 to \$20,833.

Effective September 1, 2008, the Company entered into an administrative and geological services agreement with a private company indirectly related to two common directors, which provides services to the Company including assisting in professional analysis, geological personnel, planning of exploration programs, promotional materials; providing access to financial and secretarial services and providing such other additional instructions and directions as the Company may require. For the six months ended June 30, 2019, the Company incurred expenses \$60,000 (2018 - \$60,000) under the administrative services contract.

In addition to the above:

- a) Included in marketable securities as at June 30, 2019 is \$50,000 (2018 - \$137,500) market value of shares received from companies with directors in common.
- b) Included in accounts receivable as at June 30, 2019 is \$5,941 (2018 - \$2,865) receivable from companies who have common directors or officers.
- c) Included in accounts payable as at June 30, 2019 is \$26,000 (2018 - \$18,158) payable to companies who have common directors or officers.
- d) For the six months ended June 30, 2019, the Company incurred \$52,000 (2018 - \$59,000) for compensation to directors.

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**13 Segmented Information:**

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

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

	<b>June 30, 2019</b>	December 31, 2018
<b>Canada:</b>		
Current assets	<b>\$ 6,978,416</b>	\$ 2,210,905
Mineral properties	<b>1,594,687</b>	1,351,040
Non-current assets	<b>149,666</b>	163,066
Current liabilities	<b>(393,830)</b>	(578,860)
Non-current liabilities	<b>-</b>	-
	<b>\$ 8,328,939</b>	\$ 3,146,151
 <b>Mexico:</b>		
Current assets	<b>\$ 274,064</b>	\$ 541,913
Mineral properties	<b>71,424,451</b>	71,278,093
Non-current assets	<b>918,337</b>	923,703
Current liabilities	<b>(36,424)</b>	(46,419)
	<b>\$ 72,580,427</b>	\$ 72,697,290

**14 Commitments:**

The Company entered into a various contracts for office and warehouse rent in Canada and Mexico. The following table summarizes the Company's total annual obligations under this agreement as at June 30, 2019:

2019	46,083	
2020	21,371	
	<b>\$ 67,454</b>	

**15 Financial Instruments and Financial Risk Management:**

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

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



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

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

(a) Credit risk:

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

(b) Liquidity risk:

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

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

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

As at June 30, 2019, the Company's liabilities were comprised of accounts payable, accrued liabilities, termination benefit payments and exploration program advance, which have a maturity of less than one year.

(c) Market risk:

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

(i) Currency risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian dollar, the United States dollar and the Mexican Peso. The Company's transactions are denominated in Canadian dollars, United States dollars and the Mexican Peso. The Company has not entered into any arrangements to hedge currency risk but does maintain cash balances within each currency. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

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

The balances denominated in foreign currency are as follows:

	<b>June 30, 2019</b>	December 31, 2018
	<b>US\$</b>	US\$
Cash and cash equivalents	<b>697,457</b>	856,217
Receivables and advances	-	-
Trade accounts payable and accrued liabilities	<b>46,312</b>	36,438
	<b>Mexican Peso</b>	Mexican Peso
Cash and cash equivalents	<b>495,335</b>	1,814,337
Receivables and advances	<b>11,376,422</b>	17,490,499
Trade accounts payable and accrued liabilities	<b>435,788</b>	1,258,215

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 +/- \$163,000. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

(ii) Commodity price risk:

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

(iii) Interest rate risk:

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

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

d) Fair value of financial instruments

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

June 30, 2019		Level 1		Level 2		Level 3		Total
Marketable securities	\$	818,445	\$	-	\$	-	\$	818,445
Cash and cash equivalents	\$	5,899,050	\$	-	\$	-	\$	5,899,050
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December 31, 2018		Level 1		Level 2		Level 3		Total
Marketable securities	\$	595,614	\$	-	\$	-	\$	595,614
Cash and cash equivalents	\$	1,568,245	\$	-	\$	-	\$	1,568,245

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

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

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

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

**16 Capital Management:**

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

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

The Company's investment policy is to hold cash in interest bearing, Schedule 1 bank accounts and highly liquid short-term interest-bearing investments, with maturities of one year or less which can be liquidated at any time without penalties.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the six months ended June 30, 2019.

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### 17 Subsequent Events:

On August 13, 2019, a non-brokered private placement of \$5,000,000 ("Private Placement") consisting of 31,250,000 units (the "Units") at a price of \$0.16 per Unit (the "Placement Price"). The entire Private Placement is being fully subscribed and invested into by Mr. Eric Sprott. Upon completion of the financing Eric Sprott will hold 11.28% on a non-diluted basis and 16.02% on a partially diluted basis.

Each Unit consists of one common share ("Common Share") and one-half of one common share purchase warrant ("Warrant"). Each whole warrant entitles the holder to acquire one Common Share at an exercise price of \$0.22 for a period of 36 months immediately following the closing date of the Private Placement. A finder's fee of 4% of the gross proceeds of the Private Placement, will be paid to Mackie Research Capital Corporation who are an arms length finder and is payable in cash or Units, subject to TSX Venture Exchange approval. The Private Placement is expected to close on or before August 21, 2019.