KOOTENAY SILVER INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended

June 30, 2021

and

June 30, 2020

(Unaudited)

(Expressed in Canadian dollars)

Notice of no Auditor review of Interim Financial Statements

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

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

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

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CONSOLIDATED INTERIM FINANCIAL STATEMENTS

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		June 30, 2021		December 31, 2020
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**5,877,986**	$	10,439,643
Receivables and advances (Note 9, 11)		**2,231,377**		1,614,370
Prepaid expenses		**77,179**		74,437
Marketable securities (Note 4)		**720,700**		900,907
		8,907,242		13,029,357
Non-current assets:				
Fixed assets (Note 5)		**943,925**		991,020
Exploration advances and deposits		**89,136**		89,136
Exploration and evaluation assets (Note 6)		**82,859,206**		80,293,610
Total assets	**$**	**$92,799,509**	$	94,403,123
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities (Note 11)	**$**	**302,759**	$	366,933
		302,759		366,933
Shareholders' equity:				
Share capital (Note 8)		**102,665,011**		102,134,940
Reserves (Note 8)		**37,203,186**		37,339,396
Accumulated other comprehensive loss (Exhibit 4)		**2,378,093**		3,330,015
Deficit		**(49,749,540)**		(48,768,161)
Total shareholders' equity		**92,496,750**		94,036,190
Total liabilities and shareholders' equity	**$**	**$92,799,509**	$	94,403,123

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

Approved on Behalf of the Board:

"Jon Morda"
Director

"James McDonald"
Director

\- See Accompanying Notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF LOSS

Exhibit 2

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
General and administrative expenses				
Office and general (Note 11)	**$ $248,045**	$ 153,031	**$ 417,067**	$ 399,091
Option based compensation (Note 8)	**-**	40,881	**-**	81,944
Professional fees	**79,478**	39,313	**226,387**	131,622
Management fees (Note 11)	**60,000**	48,250	**150,000**	96,500
Rent	**17,104**	16,101	**36,392**	40,283
Regulatory and filing fees	**25,420**	12,179	**51,966**	34,719
Depreciation (Note 5)	**12,020**	8,039	**26,054**	24,088
Loss before exploration and other Items	**442,067**	347,794	**907,866**	808,247
Exploration				
Mineral property investigation (Note 6)	**54,199**	51,098	**98,424**	57,023
	54,199	51,098	**98,424**	57,023
Other Items				
Foreign exchange (gain)/loss	**(128,981)**	163,115	**4,840**	38,491
Finance income	**(12,489)**	(16,966)	**(29,751)**	(58,243)
	(141,470)	146,149	**(24,911)**	(19,752)
Loss for the period	**354,796**	545,041	**981,379**	845,518
Basic and diluted loss per share (Note 8)	**$ (0.001)**	$ (0.002)	**$ (0.003)**	$ (0.003)
Weighted average number of shares outstanding	**319,543,616**	288,083,670	**319,513,130**	287,825,428

- 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,	
	2021	2020	**2021**	2020
Loss for the period	**$ 354,796**	$ 545,041	**$ 981,379**	$ 845,518
Other comprehensive loss				
Fair value changes to marketable securities arising during the period	**25,369**	(383,883)	**(150,504)**	(121,000)
Foreign currency translation differences of foreign operations	**375,575**	1,433,218	**1,102,426**	183,536
Total other comprehensive loss	**400,944**	1,049,335	**951,922**	62,536
Comprehensive loss for the period	**$ 755,740**	$ 1,594,376	**$ 1,933,301**	$ 908,054

- See Accompanying Notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Exhibit 4

	Number of Shares		Capital Stock		Reserves		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance, December 31, 2019	286,513,175	$	92,511,070	$	36,536,369	$	4,463,425	$	(46,734,416)	$	86,776,448
Acquisition of mineral properties	50,000		17,250		-		-		-		17,250
Option based compensation	-		-		136,573		-		-		136,573
Exercise of share purchase options	565,000		127,170		(32,370)		-		-		94,800
Exercise of share purchase warrants	2,390,000		642,040		(159,040)		-		-		483,000
Fair value changes to marketable securities arising during the period	-		-		-		121,000		-		121,000
Foreign currency translation differences of foreign operations	-		-		-		(183,536)		-		(183,536)
Loss for the period	-		-		-		-		(845,518)		(845,518)
Balance, June 30, 2020	**289,518,175**	**$**	**93,297,530**	**$**	**36,481,532**	**$**	**4,400,889**	**$**	**(47,579,934)**	**$**	**86,600,017**
Balance, December 31, 2020	318,534,825	$	102,134,940	$	37,339,396	$	3,330,015	$	(48,768,161)	$	94,036,190
Exercise of share purchase options	170,000		37,910		(14,110)						23,800
Exercise of share purchase warrants	1,850,111		492,161		(122,100)						370,061
Fair value changes to marketable securities arising during the period							150,504				150,504
Foreign currency translation differences of foreign operations							(1,102,426)				(1,102,426)
Loss for the period									(981,379)		(981,379)
Balance, June 30, 2021	**320,554,936**	**$**	**102,665,011**	**$**	**37,203,186**	**$**	**2,378,093**	**$**	**(49,749,540)**	**$**	**92,496,750**

- See Accompanying Notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Exhibit 5

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Cash flows from operating activities				
Loss for the period	**$ (354,796)**	$ (545,041)	**$ (981,379)**	$ (845,518)
Add items not involving cash:				
Option based compensation	**-**	8,039	**-**	81,944
Depreciation	**12,020**	40,881	**26,054**	24,088
	(342,777)	(496,121)	**(955,325)**	(739,486)
Changes in non-cash working capital balances:				
Receivable and advances	**(465,123)**	(110,492)	**(314,816)**	(238,640)
Prepaid expenses	**1,356**	90,936	**(17,844)**	16,477
Accounts payable and accrued liabilities	**(82,645)**	(7,116)	**(350,511)**	(177,168)
	(889,189)	(522,793)	**(1,638,496)**	(1,138,817)
Cash flows from financing activities				
Exercise of options	**13,300**	-	**23,800**	94,800
Exercise of warrants	**280,000**	337,000	**370,061**	483,000
	293,300	337,000	**393,861**	577,800
Cash flows from investing activities				
Investment in exploration and evaluation assets	**(2,503,833)**	(494,749)	**(3,475,631)**	(1,500,143)
Investment in equipment	**-**	-	**(4,464)**	(5,882)
Receipt of mineral property payment	**50,000**		**177,690**	
	(2,453,833)	(494,749)	**(3,302,405)**	(1,506,025)
Effect of foreign exchange rate changes on cash	**(138,456)**	(232,547)	**(14,617)**	(335,063)
Net change in cash and cash equivalents during the period	**(3,188,178)**	(913,090)	**(4,561,656)**	(2,402,106)
Cash and cash equivalents, beginning of the period	**9,066,164**	7,221,485	**10,439,643**	8,710,501
Cash and cash equivalents, end of the period	**$ 5,877,986**	$ 6,308,395	**$ 5,877,986**	$ 6,308,395

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

- See Accompanying Notes -

1 Nature of Operations and Going Concern

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

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

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

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

The Company has predominately experienced operating losses and negative operating cash flows; operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. Management has estimated that the Company has sufficient financing to complete current work plans; however, future development will require additional financing in order to complete all anticipated exploration and other programs during the forthcoming year and thereafter. If funds are unavailable 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 interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated interim financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

There continues to be a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

1 Nature of Operations and Going Concern *(continued)*:

	June 30, 2021	December 31, 2020
Deficit	**$ 49,749,540**	$ 48,768,161
Working capital	**$ 8,604,483**	$ 12,662,424

2 Basis of Presentation:

Statement of Compliance

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

These consolidated interim financial statements are for the three and six months ended June 30, 2021 and have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). They do not include all the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020. 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, 2020.

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 26, 2021.

Functional and presentation currency

These consolidated interim 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 significant accounting policies applied in the preparation of these consolidated interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2020 except as noted below. These consolidated interim statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020.

(Expressed in Canadian dollars)

4 Marketable Securities:

As at June 30, 2021, the fair value of marketable securities held was $720,700 (2020 – $691,195). 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, 2021, the Company recorded in other comprehensive gain of $150,504 (2020 – a loss of $121,000) for fair value adjustments to marketable securities.

5 Fixed Assets:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Land	Total
Cost						
Balance December 31, 2019	$ 383,825	$ 66,485	$ 285,093	$ 60,321	$ 803,304	$ 1,599,028
Addition	-	-	64,508	-	-	64,508
Effect of foreign exchange	(69,477)	(1,281)	(32,406)	-	-	(103,167)
Balance December 31, 2020	314,348	65,204	317,192	60,321	803,304	1,560,369
Addition	-	2,048	2,416	-	-	4,464
Effect of foreign exchange	(64,314)		(8,797)	-	-	(73,111)
Balance June 30, 2021	**$ 250,034**	**$ 67,252**	**$ 310,811**	**$ 60,321**	**$ 803,304**	**$ 1,491,722**
Accumulated Depreciation						
Balance December 31, 2019	$ 266,925	$ 57,161	$ 167,610	$ 60,321	$ -	$ 552,017
Depreciation for the year	28,607	3,177	61,302	-	-	93,086
Effect of foreign exchange	(70,966)	(1649)	(3,139)	-	-	(75,754)
Balance December 31, 2020	224,566	58,689	225,773	60,321	-	569,349
Depreciation for the period	11,060	1,442	13,552	-	-	26,054
Effect of foreign exchange	(38,161)	(728)	(8,717)	-	-	(47,606)
Balance June 30, 2021	**$ 197,465**	**$ 59,403**	**$ 230,608**	**$ 60,321**	$ -	**$ 547,797**
Carrying value December 31, 2020	$ 89,782	$ 6,615	$ 91,419	$ -	$ 803,304	$ 991,020
Carrying value June 30, 2021	**$ 52,569**	**$ 7,849**	**$ 80,203**	**$ -**	**$ 803,304**	**$ 943,925**

(Expressed in Canadian dollars)

6 Exploration and evaluation assets:

	MEXICO							CANADA					
	Promontorio	**La Cigarra**	**Columba**	**Copalito**	**Generative Anomalies**	**Cervantes***	**Mexico Total**	**Nechako Region**	**Silver Fox**	**Other**	**Canada Total**	**2021 Total**	2020 **Total**
	$	$	$	$	$	$	$	$	$	$	$	$	$
Acquisition Costs													
Balance, beginning	3,658,642	30,548,524	332,811	339,829	826,090	-	**35,705,896**	479,798	59,250	1,388,565	**1,927,613**	**37,633,509**	37,138,307
Incurred	-	-	247,880	247,880	-	-	**495,760**	-	-	30,000	**30,000**	525,760	495,202
Balance, ending	**3,658,642**	**30,548,524**	**580,691**	**587,709**	**826,090**	**-**	**36,201,656**	**479,798**	**59,250**	**1,418,565**	**1,957,613**	**38,159,269**	37,633,509
Exploration Expenditures													
Balance, beginning	32,341,534	5,486,751	5,127,552	1,496,216	7,309,658	260,905	**52,022,616**	1,447,339	1,949,881	6,538,117	**9,935,337**	**61,957,953**	57,066,822
Assaying and Lab	-	107,614	1,880	87,498	-	-	**196,992**	7,257	-	-	**7,257**	**204,249**	235,930
Camp Costs	17,033	48,059	31,250	-	-	-	**96,342**	-	-	-	**-**	**96,342**	118,998
Drafting	17,270	-	-	-	-	-	**17,270**	3,975	-	3,900	**7,875**	**25,145**	48,680
Drilling	-	-	743,416	623,713	-	-	**1,367,129**	-	-	450	**450**	**1,367,579**	2,165,082
Geological mapping	-	47,505	6,300	-	-	80,145	**133,950**	-	-	9,375	**9,375**	**143,325**	89,963
Geophysics	-	-	-	-	7,200	-	**7,200**	53,288	-	-	**53,288**	**60,488**	38,525
Maintenance	66,273	36,596	19,208	10,468	5,041	-	**137,586**	2,190	-	4,218	**6,408**	**143,994**	361,577
Miscellaneous	258	-	-	-	16,736	-	**16,994**	6,345	-	567	**6,912**	**23,906**	65,207
Geological Consulting and Prospecting	941	161,670	508,398	307,292	694	-	**978,995**	44,413	-	26,850	**71,263**	**1,050,258**	1,767,169
Incurred	**101,775**	**401,444**	**1,310,452**	**1,028,971**	**29,671**	**80,145**	**2,952,458**	**117,468**	**-**	**45,360**	**162,828**	**3,115,286**	4,891,131
Balance, ending	32,443,309	5,888,195	6,438,004	2,525,187	7,654,638	341,050	**55,290,383**	1,564,807	1,949,881	6,583,477	**10,098,165**	**65,388,548**	61,957,953
Total properties balance	**36,101,951**	**36,436,719**	**7,018,695**	**3,112,896**	**8,944,905**	**341,050**	**91,956,216**	**2,044,605**	**2,009,131**	**8,002,042**	**12,055,778**	**104,011,994**	99,591,462
Balance, beginning	**(1,420,910)**	**-**	**(9,567)**	**-**	**(6,705,358)**	**(244,394)**	**(8,380,229)**	**(1,299,353)**	**(1,483,198)**	**(6,400,605)**	**(9,183,156)**	**(17,563,385)**	(17,563,385)
Option payment received	-	-	-	-	(156,798)	-	**(156,798)**	-	-	(50,000)	**(50,000)**	**(206,798)**	-
Impaired or disposed	-	-	-	-	-	-	**-**	-	-	-	**-**	**-**	-
Mineral exploration refund										(33,053)	**(33,053)**	**(33,053)**	
Cumulative change in foreign currency translation	(1,389,945)	(1,460,308)	(280,911)	(124,758)	(89,756)	(3,874)	**(3,349,553)**	-	-	-	**-**	**(3,349,553)**	(1,734,468)
Carrying value exploration and evaluation assets	**33,291,096**	**34,976,411**	**6,728,217**	**2,988,138**	**1,992,993**	**92,782**	80,069,636	**745,252**	**525,933**	**1,518,384**	**2,789,569**	**82,859,206**	80,293,610

*Joint venture agreement

6 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.

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

Columba – Chihuahua State, Mexico

On November 12, 2018, the Company entered into an option agreement to acquire an undivided interest in the Columba concession. Under the terms of the agreement, the Company must make total cash payments of US$3,290,000 within a four-year period with an initial payment of US$15,000 and first and second years payments totalling US$75,000 and US$150,000 respectively. Payments totalling US$150,000 were made during the year ended December 31, 2020. During the six months ended June 30, 2021, the Company paid US$200,000 per the option agreement. The option agreement includes a work commitment of US$250,000 by the first anniversary and US$750,000 by the second anniversary of the Agreement, which the Company has fulfilled early. Upon earn-in the vendors retain a 2% n.s.r. of which 1% can be purchased by the Company for US$750,000.

Copalito – Sinaloa, Mexico

On April 19, 2018, the Company entered into an option agreement to acquire an undivided interest in the Copalito concession. Under the terms of the agreement, the Company 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$150,000 were made during the year ended December 31, 2020. During the six months ended June 30, 2021, the Company paid US$200,000 per the option agreement. 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.

Generative Anomalies – Mexico

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

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

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. Effective September 30, 2016, the obligations of the option agreement were assigned to Aztec Minerals Corp. from Aztec. 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. During the year ended December 31, 2019, the Company received the final share installment and the remaining US$50,000 cash payment.

Aztec having earned in to 65% of the Cervantes project and elected to form an associated company (Note 7).

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

Copley Property – Nechako Plateau, British Columbia

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

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 Group ("Kennedy Group") by July 3, 2018 (the "Underlying Option"). The Company completed the acquisition 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.

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 $80,000 and issued 230,000 shares with a fair value of $58,425. On March 1, 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.

On March 30, 2021, the Company announced the signing of an option agreement with a wholly owned subsidiary of Centerra Gold Inc. ("Centerra"), whereby Centerra is granted an option to earn a 70% interest in the Two Times Fred property. A total of C$6 million in exploration expenditures and C$500,000 in cash payments must be incurred and made over a four-year period for Centerra to earn a 70% interest. The first year requires a work expenditure of $1 million with a minimum commitment of $650,000. Upon earn in, the two companies will enter a standard joint venture agreement with the Company retaining a 30% interest. During the six months ended June 30, 2021, the Company received the initial cash payment of $50,000.

Mark Property – Southern British Columbia

On June 7, 2017, the Company is 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, the Company completed the Acquisition by issuing 100,000 common shares with a fair value of $15,500 to the Kennedy Group. Following completion of the Acquisition, the Kennedy Group retains 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%).

6 Exploration and evaluation assets *(continued)*:

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. During the year ended December 31, 2020, the Company issued 50,000 common shares with a fair value of $17,250 (Note 9) and made cash a payment of $20,000. 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.

Property Investigation and Impairment

During the six months ended June 30, 2021, the Company expended $98,424 (2020 - $57,023) related to other property investigation expense related to mineral properties located in both Mexico and Canada. Once the Company has made its evaluations, the properties will 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.

7 Investment in Associate

On December 16, 2020 Kootenay completed the formation of a joint venture named Aztec Minerals (Mexico) JV Corp. with Aztec in respect of the Cervantes project (Note 7). Aztec completed its earn-in and exercised its option to acquire a 65% interest in Cervantes project through the joint venture. Kootenay retains the remaining 35% interest. During the six months ended June 30, 2021, the Company's share of loss in the joint venture is $nil and paid $80,154 as part of the JV investment.

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 320,554,936 fully paid common shares on issue as at June 30, 2021.

Issued:

Six months ended June 30, 2021

During the six months ended June 30, 2021, 170,000 common shares were issued upon exercise of share options for gross proceeds of $23,800 and 1,850,111 common shares were issued upon exercise of warrants for gross proceeds of $370,061.

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued):*

Year ended December 31, 2020

On August 25, 2020, the Company closed a brokered private placement lead by Mackie Research Capital Corporation of 17,500,000 units (the “Unit”) at a price of $0.40 per unit for gross proceeds of up to $7 million. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to one common share at a price of $0.55 per warrant share until August 25, 2022. Cash finder’s fee of $450,000 and other transaction costs of $130,667 was paid and broker warrants totalling 1,050,000 with a fair value of $ 226,276 were issued, each broker warrant entitles the holder to purchase one Unit at an exercise price of $0.40 until August 25, 2022.

During the year ended December 31, 2020, 50,000 shares of the Company were issued with a fair value $17,250 for mineral properties pursuant to option agreements (Note 6).

During the year ended December 31, 2020, 1,062,500 common shares were issued upon exercise of share options for gross proceeds of $164,451 and 13,409,150 common shares were issued upon exercise of warrants for gross proceeds of $3,634,995.

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, 2019	107,325,046	$	0.31	17,375,750	$	0.27
Granted	9,800,000		0.53	-		-
Exercised	(13,409,150)		0.22	(1,062,500)		0.15
Expired	(519,090)		0.30	(2,568,250)		0.34
Outstanding, December 31, 2020	103,196,806	$	0.33	13,745,000	$	0.27
Granted	-			-		-
Exercised	(1,850,111)		0.55	(170,000)		0.14
Outstanding, June 30, 2021	**74,475,665**	**$**	**0.26**	**13,575,000**	**$**	**0.27**

Warrants
As at June 30, 2021, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Warrants	Exercise Price	Expiry Date
3,846,154	0.40	October 11, 2021
16,250,000	0.22	August 22, 2022
8,750,000	0.55	August 25, 2022
1,050,000	0.40	August 25, 2022
44,579,511	0.20	March 4, 2024
74,475,665		

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued):*

The weighted average remaining life of the outstanding warrants is 2.02 years (December 31,2020 – 1.95 years). The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in reserves until exercised, at which time they are transferred into share capital.

The following assumptions were used for the Black-Scholes valuation of warrants for the period ending December 31, 2020:

	2020
Risk-free interest rate	0.26%
Expected life of warrants	24 months
Fair value per warrant issued	$0.29
Annualized volatility	91%
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.

Options

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

During the six months ended June 30, 2021, option-based compensation totalling $Nil (2020 - $136,573) of which $Nil (2020 - $54,629) was capitalized under mineral properties and $Nil (2020 - $81,944) was expensed. As at June 30, 2021, 13,575,000 options (December 31, 2020 – 13,745,000) with a weighted average exercise price of $0.27 per option (December 31, 2020 - $0.27) were fully vested and exercisable.

As at June 30, 2021, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

Number of Options	Exercise Price	Expiry Date
6,695,000	0.40	January 20, 2022
6,880,000	0.14	June 26, 2024
13,575,000		

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued):*

The weighted average remaining life of the options is 1.8 years (2020 – 2.3 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.

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, 2021 was based on the loss of $981,379 (2020 - $845,518) and the weighted average number of common shares outstanding of 319,513,130 (2020 – 287,825,428), respectively. The Company does not have any instruments that would give rise to a dilution effect as of June 30, 2021 and 2020. As at June 30, 2021, the Company has 6,880,000 options (2020 – 14,242,500) and 60,829,511 warrants (2020 – 64,169,511) that are anti-dilutive and thus, not included in diluted loss per share.

9 Receivables:

The Company's receivables are as follows:

		June 30, 2021		December 31, 2020
IVA/GST receivable	**$**	**2,153,851**	$	1,588,035
Other receivable		**77,526**		26,335
Exploration advances and deposits		**89,136**		89,136
Total	**$**	**2,320,513**	$	1,703,506

10 Supplemental Disclosure of Cash and Non-Cash Activities:

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

		2021		2020
Option based compensation capitalized in mineral property	**$**	**-**	$	54,629
Issuance of share capital for acquisition of mineral property interests		**-**		17,250
Mineral property costs included in accounts payable	**$**	**102,054**	$	-

(Expressed in Canadian dollars)

11 Related Party Transactions and Balances:

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

Key management renumeration:

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

		June 30, 2021		June 30, 2020
Management fees charged by companies controlled by a director and/or officers	**$**	**250,000**	$	196,500
Consulting, administrative and geological fees charged by a company with common officers (c)		**60,000**		60,000
	$	**310,000**	$	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 to $20,833 from $15,000, on January 1, 2019.

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, 2021, the Company incurred expenses $60,000 (2020 - $60,000) under the administrative and geological services contract.

In addition to the above:

a) Included in marketable securities as at June 30, 2021 is $162,500 (December 31, 2020 - $265,000) market value of shares received from companies with directors in common.

b) Included in accounts receivable as at June 30, 2021 is $3,333 (December 31, 2020 - $10,237) receivable from companies who have common directors or officers.

c) Included in accounts payable as at June 30, 2021 is $25,068 (December 31, 2020 - $30,689) payable to companies who have common directors or officers.

d) For the six months ended June 30, 2021, the Company incurred $54,000 (2020 - $49,000) for compensation to directors. As at June 30, 2021, $27,000 (December 31, 2020- $24,000) was held in accrued liabilities as owing to directors for compensation.

e) For the six months end ended June 30, 2021, the Company recorded $Nil (2020 – $71,107) for option-based compensation to officers and directors of the Company.

(Expressed in Canadian dollars)

12 Segmented Information:

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

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

	June 30, 2021	December 31, 2020
Canada:		
Current assets	**$ 6,855.616**	$ 11,558,729
Mineral properties	**2,789,574**	2,679,794
Non-current assets	**133,784**	135,548
Current liabilities	**(237,682)**	(263,170)
	$ 9,451,292	$ 14,110,902
Mexico:		
Current assets	**$ 2,051,626**	$ 1,470,629
Mineral properties	**80,069,632**	77,613,816
Non-current assets	**899,277**	944,607
Current liabilities	**(65,078)**	(103,763)
	$ 82,955,457	$ 79,925,289

13 Commitments:

The Company entered into 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, 2021:

2021	$	26,246
2022	$	7,316

14 Financial Instruments and Financial Risk Management:

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

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.

14 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 interim financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

(a) Credit risk:

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

(b) Liquidity risk:

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

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

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

As at June 30, 2021, the Company's liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year.

(c) Market risk:

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

(i) Currency risk:

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

(Expressed in Canadian dollars)

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

The balances denominated in foreign currency are as follows:

	June 30, 2021	December 31, 2020
	US$	US$
Cash and cash equivalents	**308,067**	133,084
Trade accounts payable and accrued liabilities	**16,453**	17,318
	Mexican Peso	Mexican Peso
Cash and cash equivalents	**709,914**	738,443
Receivables and advances	**10,077,830**	6,041,058
Trade accounts payable and accrued liabilities	**687,770**	1,256,095

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 +/- $99,045. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

(ii) Commodity price risk:

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

(iii) Interest rate risk:

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

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:

(Expressed in Canadian dollars)

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

June 30, 2021		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	720,700	$	-	$	-	$	720,700
Cash and cash equivalents	$	5,877,986	$	-	$	-	$	5,877,986
December 31, 2020		Level 1		Level 2		Level 3		Total
Marketable securities	$	900,906	$	-	$	-	$	900,906
Cash and cash equivalents	$	10,439,643	$	-	$	-	$	10,439,643

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

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

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

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

15 Capital Management:

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

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

The Company's investment policy is to hold cash in interest bearing, Schedule 1 bank accounts and highly liquid short-term interest-bearing investments, with maturities of one year or less which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the six months ended June 30, 2021.

16 Subsequent Event:

On July 7, 2021, the Company granted 650,000 share purchase options to an employee and consultant which expire on July 7, 2026 and are exercisable at $0.265

On August 16, 2021, the Company announced that its board of directors had unanimously approved a spin-out of 80% of the Company's Canadian exploration assets (the "**Canadian Assets**"), to its shareholders by way of a share capital reorganization effected through a statutory plan of arrangement (the "**Arrangement**"). The Canadian Assets are held through Kootenay's wholly-owned subsidiary, Kootenay Resources Inc. ("**Spinco**"). Under the Arrangement, Kootenay will distribute 80% of the common shares (each, a "**Spinco Share**") of Spinco to Kootenay's shareholders. Once the Arrangement becomes effective, which will be triggered by the board of Kootenay, Kootenay shareholders will ultimately own shares in two public companies: Spinco, which will focus on the development of the Canadian Assets, and Kootenay, which will continue with the exploration and development of its Mexican assets.

Completion of the Arrangement is subject to a number of conditions, including the following:

(a) Kootenay shareholder approval at the Meeting;
(b) the approval of the Supreme Court of British Columbia; and
(c) TSXV approval for the Arrangement and the substitutional listing of the New Kootenay Shares in place of the existing Company common shares.
(d) TSXV listing of Spinco
(e) Funding of Spinco

The Arrangement will be voted on at the Company's annual and special meeting on September 15, 2021 with the arrangement expected to be triggered and completed by December 31, 2021.