



Vancouver, BC

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended

September 30, 2007

and

September 30, 2006

Notice to Shareholders

Responsibility for Financial Statements

The accompanying consolidated financial statements for Kootenay Gold Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set in Note 3 in the accompany notes to these interim consolidated financial statements.

These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the interim consolidated financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented.

Auditor involvement

The independent auditor of Kootenay Gold Inc. has not performed a review of the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2007 and September 30, 2006.

KOOTENAY GOLD INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED BALANCE SHEETS

(Prepared by Management)

Unaudited

Exhibit 1

	September 30 2007 \$	December 31 2006 \$	September 30 2006 \$
ASSETS			
Current			
Cash and cash equivalents	395,222	1,771,070	1,100,308
Accounts receivable	291,324	95,402	73,915
Exploration program advance	113,290	-	-
Prepaid expenses	35,106	2,112	-
Marketable securities (Note 5)	165,500	165,500	144,000
	<u>1,000,442</u>	<u>2,034,084</u>	<u>1,318,223</u>
Equipment (Note 6)	38,374	35,676	37,501
Mineral properties (Note 7)	3,671,008	1,275,852	830,587
	<u>\$ 4,709,824</u>	<u>\$ 3,345,612</u>	<u>\$ 2,186,311</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities	\$ 335,682	\$ 133,380	\$ 375,363
Investor deposit (Note 8)	-	989,690	-
Investor deposit Exploration advances	-	250,000	-
	<u>335,682</u>	<u>1,373,070</u>	<u>375,363</u>

SHAREHOLDERS' (DEFICIENCY) EQUITY

Share capital (Note 9)	4,794,408	2,892,006	2,599,366
Contributed surplus (Note 9)	1,622,192	639,197	-
Deficit	(2,042,458)	(1,558,661)	(788,418)
	<u>4,374,142</u>	<u>1,972,542</u>	<u>1,810,948</u>
	<u>\$ 4,709,824</u>	<u>\$ 3,345,612</u>	<u>\$ 2,186,311</u>

Continued Operation (Note 2)

Subsequent Events (Note 14)

Approved on Behalf of the Board:

"Kenneth Berry"
Director

"James McDonald"
Director

KOOTENAY GOLD INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Prepared by Management)
Unaudited

Exhibit 2

	Three months ended		Nine months ended	
	September 30 2007	September 30 2006	September 30 2007	September 30 2006
	\$	\$	\$	\$
Administrative Expenses				
Amortization	2,832	1,466	8,397	2,029
General and administrative	96,371	29,054	326,365	48,865
Management fees	55,025	24,000	163,623	71,000
Stock-based compensation (Note 9b)	86,443	-	86,443	-
Professional fees	25,845	32,582	158,885	94,878
Regulatory and filing fees	2,953	3,620	39,564	22,521
Rent	12,052	1,500	19,070	4,500
Loss before Other Items	281,521	92,222	802,347	241,793
Other				
Administration fee income	139,026	47,939	147,289	47,939
Interest income	7,529	18	17,380	193
Income tax - renunciation of flow- through shares	-	-	153,881	-
	146,555	47,957	318,550	48,132
Loss for the Period	134,966	44,265	483,797	193,661
Deficit, Beginning	1,907,492	744,153	1,558,661	594,757
Deficit, Ending	2,042,458	788,418	2,042,458	788,418
Basic and Diluted Earnings (Loss) per Share	(0.007)	(0.003)	(0.026)	(0.015)
Weighted Average Number of Shares Outstanding	18,753,131	13,205,300	18,971,210	13,205,300

KOOTENAY GOLD INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Prepared by Management)

Unaudited

Exhibit 3

	Three months ended		Nine months ended	
	September	September	September	September
	30	30	30	30
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash Flows from Operating Activities				
Net loss for the period	(134,966)	(44,265)	(483,797)	(193,661)
Add items not involving any outlay of cash:				
Stock-based compensation	86,443	-	86,443	-
Amortization	2,832	1,466	8,397	2,029
	(45,691)	(42,799)	(388,957)	(191,632)
Changes in non-cash working capital balances:				
Accounts receivable	(214,581)	(42,075)	(195,922)	(80,055)
Prepaid expenses	(18,289)	-	(32,994)	-
Accounts payable	227,741	3,526	202,302	(10,141)
	(50,820)	(81,348)	(415,571)	(281,828)
Cash Flows from Financing Activities				
Exploration program advance	-	-	(250,000)	-
Investor deposits	-	-	(989,690)	-
Issuance of share capital	278,000	36,000	2,798,954	1,344,075
	278,000	36,000	1,559,264	1,344,075
Cash Flows from Investing Activities				
Increase in marketable securities	-	(30,000)	-	(30,000)
Increase in equipment	(6,920)	(18,456)	(11,095)	(18,456)
Change in mineral properties	(1,003,724)	(309,469)	(2,395,156)	(346,320)
Exploration program advance	(15,152)	-	(113,290)	-
	(1,025,796)	(357,925)	(2,519,541)	(394,776)
Increase (Decrease) in Cash and Cash Equivalents During the Period	(798,616)	(403,273)	(1,375,848)	667,471
Cash and Cash Equivalent, Beginning of the Period	1,193,838	1,201,947	1,771,070	131,203
Cash and Cash Equivalent, End of the Period	395,222	798,674	395,222	798,674

Non-cash Investing and Financing Activities (Note 11)

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management)
Unaudited

September 30, 2007 and September 30, 2006

1 Nature of Operations:

Kootenay Gold Inc. (the "Company") was a Capital Pool Company established under the policies of the TSX Venture Exchange (the "Exchange"). On March 7, 2005 the Company completed an Acquisition Agreement with Kootenay Gold Corp. ("Kootenay") and its shareholders. This acquisition represents the Company's "Qualifying Transaction" pursuant to the policies of the Exchange as they relate to Capital Pool Corporations. Effective March 7, 2005, the Company also changed its name from First Integrated Enterprises Ltd. to Kootenay Gold Inc.

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

2 Continued Operations:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its mineral property projects.

The Company's ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to complete its mineral projects by issuance of share capital or through joint ventures, and to realize future profitable production or proceeds from the disposition of its mineral interests.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate because management believes that the actions taken or planned will mitigate the adverse conditions and events that raise doubt about the validity of the going concern assumption used in preparing these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used.

3 Significant Accounting Policies:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles accepted in Canada applicable to a going concern. The following is a summary of significant accounting policies used in the preparation of these financial statements.

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management)

Unaudited

September 30, 2007 and September 30, 2006

3 Significant Accounting Policies: (continued)

a) Amortization

Amortization is being provided for at the following rates:

Automotive	- 30% declining balance
Computer hardware	- 30% declining balance

In the year of acquisition rates for amortization are at one-half the annual rate.

b) Asset Retirement Obligations

This policy requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the year in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

c) Basis of Presentation

These consolidated financial statements include the accounts of the parent Company and its wholly owned subsidiaries Kootenay Resources Inc. (formerly Kootenay Gold Corp.) and Minera JM S.A. DEC.V. (a company incorporated in Mexico) and Kootenay resources Inc.'s wholly owned subsidiaries Kootenay Gold (U.S.) Corp. All significant inter-company accounts and transactions have been eliminated.

The Company's efforts and those of its subsidiaries are devoted to exploring their mineral properties and acquiring new mineral properties. Accordingly, these financial statements represent those of a company in the exploration stage.

The Company is in the process of exploring mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recovery of amounts shown for mineral properties and related assets are dependent on the existence of economically recoverable reserves, on the ability of the Company to obtain financing to complete development, and on future profitable operations.

d) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

e) Deferred Share Issue Costs

Deferred share issue costs comprise corporate sponsor fees and other costs associated with the issuance of share capital and the Qualifying Transaction. Share issue costs incurred prior to the issuance of share capital and the approval of the Qualifying Transaction are deferred, and upon successful completion of the share issuance, will be netted against the proceeds when the shares are issued.

f) Flow-Through Shares

The Company accounts for flow-through shares using the recommendations of the Emerging Issues Committee EIC-146. Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2007 and September 30, 2006

3 Significant Accounting Policies: (continued)

f) Flow-Through Shares (continued)

If the Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

g) Foreign Currency Translation

Foreign currencies have been converted to Canadian funds at the exchange rates in effect on the dates of the transactions with the exception of current assets and liabilities that have been converted at the period-end date.

h) Future Income Taxes

Future income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the differences between the tax basis as an asset or liability and its carrying amount on the balance sheet and utilized losses carried forward are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates expected to apply in years that the temporary differences are expected to reverse. The carrying value of the future income tax assets is limited to the amount that is more likely than not to be realized.

i) Loss Per Share

Basic loss per share has been calculated using the weighted, average number of shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise or conversion of stock options, warrants, and convertible securities using the treasury stock method, if dilutive. Diluted loss per common share does not differ from basic loss per share because the effects on loss per common share are not dilutive.

j) Marketable Securities

Marketable securities are valued at the lower of cost and market value.

k) Mineral Properties and Deferred Costs

Costs of acquisition, exploration and development expenditures are allocated to specific groups of mineral claims as work is performed on or for the benefit of those claims and are capitalized until such time as the extent of mineralization has been determined and mineral claims are either developed, sold, or abandoned. If there is any indication of impairment, the mineral properties and deferred exploration costs are written down to their estimated recoverable amounts. The Company does not accrue the estimated future cost of maintaining, in good standing, its mineral properties.

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

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management)

Unaudited

September 30, 2007 and September 30, 2006

3 Significant Accounting Policies: (continued)

l) Property Option Agreements

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

m) Share Capital

- i) The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company, net of issue costs.
- ii) Share capital issued to third parties for non-monetary consideration is recorded at an amount based on fair market value.

n) Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method.

o) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures. Although these estimates are based on management's best knowledge of the current events and actions the Company may undertake in the future, actual results may differ from these estimates.

4 Financial Instruments:

Unless otherwise noted, cash, short-term deposits, accounts payable and accrued liabilities, are stated at amounts that approximate their book value. The fair values of these instruments approximate their carrying values.

5 Marketable Securities:

The marketable securities are carried at cost. The market value at September 30, 2007 is \$190,750 (2006 – \$174,000).

6 Equipment:

			September 30 2007 Net	December 31 2006 Net	September 30 2006 Net
Automobiles	\$ 32,554	\$ 11,109	\$ 21,445	\$ 27,671	\$ 33,841
Computer	21,075	4,146	16,929	8,005	3,660
	<u>\$ 53,629</u>	<u>\$ 15,255</u>	<u>\$ 38,374</u>	<u>\$ 35,676</u>	<u>\$ 37,501</u>

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(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

September 30, 2007 and December 31, 2006

7 Mineral Properties:

	Conner Creek	Jumping Josephine	Chapleau	Other	Canada Total	Mexico	United States	September 30 2007 Total	December 31 2006 Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Acquisition Costs									
Balance, beginning	24,250	24,250	-	13,991	62,491	135,124	65,102	262,717	116,187
Incurred	-	-	-	218,300	218,300	690,537	-	908,837	306,530
Sale of 50% interest	-	(7,500)	-	-	(7,500)	-	-	(7,500)	(160,000)
Abandoned	-	-	-	-	-	-	-	-	-
Balance, ending	24,250	16,750	-	232,291	273,291	825,661	65,102	1,164,055	262,717
Exploration Expenditures									
Assaying and Lab	2,583	-	3,547	26,798	29,381	22,251	-	51,632	58,181
Camp Costs	-	-	-	-	-	-	-	-	-
Drafting	1,694	858	-	5,801	8,353	44,021	-	52,374	8,363
Drilling	314,848	-	-	116,760	431,608	226,783	-	658,390	-
Geological mapping	6,675	-	-	17,429	24,104	128,229	-	152,333	197,474
Geophysics	3,508	-	-	279,543	283,051	446,980	12,290	742,321	175,360
Maintenance	1,100	-	761	14,291	15,391	22,463	-	37,854	157,515
Miscellaneous	-	-	2,178	4,764	4,764	328,541	-	333,305	10,812
Prospecting	6,685	-	-	179,222	185,907	123,663	-	309,570	283,061
Rock Sampling	48,724	450	-	39,511	88,686	25,807	-	114,492	36,118
	385,817	1,308	6,486	684,119	1,071,244	1,368,739	-	2,452,272	972,798
Balance, beginning	35,307	94,100	22,847	427,921	557,328	294,431	161,408	1,013,167	450,440
Recovery of costs	(401,495)	(450)	-	(279,802)	(681,747)	(276,738)	-	(958,485)	(380,103)
Abandoned	-	-	-	-	-	-	-	-	-
Balance, ending	19,629	94,957	29,332	832,238	946,824	1,386,432	173,698	2,506,954	1,013,135
Cumulative mineral property costs	43,879	111,707	29,332	1,064,529	1,220,115	2,212,093	238,800	3,671,008	1,275,852

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management)

Unaudited

September 30, 2007 and September 30, 2006

7 Mineral Properties: (continued)

	Canada	Mexico	United States	September 2006 Total
Acquisition costs				
Balance, beginning	\$ 40,533	\$ 10,552	\$ 65,102	\$ 116,187
Incurred during	10,000	43,609	-	53,609
Abandoned during	-	-	-	-
Balance, ending	50,533	54,161	65,102	169,796
Exploration Expenditures				
Assaying and lab	17,474	5,301	-	23,074
Camp Costs	-	2,149	-	2,149
Drafting	1,294	-	-	1,294
Geological mapping	33,251	81,318	-	114,569
Geophysics	85,905	74,269	-	160,174
Maintenance	26,915	100,185	-	127,100
Prospecting	117,626	130,840	-	248,466
Rock Sampling	14,812	5,455	-	20,785
	297,277	399,517	-	697,611
Balance, beginning	284,367	15,298	150,775	450,440
Recovery of costs	(127,418)	(359,842)	-	(487,260)
Mineral properties abandoned	-	-	-	-
Balance ending	454,226	54,973	150,775	660,791
Cumulative mineral property costs	\$ 505,576	\$ 109,133	\$ 215,877	\$ 830,587

Details of Mineral Properties:

Canada:

Connor Creek Property - Trail Creek Mining Division, British Columbia

The Company exercised its right under a Grubstake Agreement granting the Company the option to purchase a 100% interest in thirty-six mineral claims covering sixty-eight units in the Connor Creek area of Trail, British Columbia.

In order to exercise its option the Company must issue 100,000 shares of the Company to the vendor, and incur an aggregate of \$40,000 in expenditures on or before the fourth anniversary date of the filing date of the mineral claim. The Company expended \$421,124 on the property to the period ended September 30, 2007 (2006 - \$60,982). With expenditure commitments being fulfilled and the issuance of common stock to the vendor under the agreement the claims have been transferred to the Company.

The Company entered into an option agreement with Amador Gold Inc., whereby the Company gave the right to Amador to earn a 50% undivided interest in the Connor Creek property. The option calls for Amador to expend \$1,000,000 dollars in exploration and issue 400,000 shares to the Company over 4 years. If commercial production is reached an additional 250,000 shares of Amador are payable to the Company. The Company received \$401,495 for costs incurred during the period ended September 30, 2007 (2006 - \$18,000).

KOOTENAY GOLD INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management)

Unaudited

September 30, 2007 and September 30, 2006

7 Mineral Properties: (continued)

Details of Mineral Properties: (continued)

Canada: (continued)

Jumping Josephine Property - Nelson Mining Division, British Columbia

The Company exercised its right under a Grubstake Agreement granting the Company the option to purchase a 100% interest in twenty mineral claims comprised of fifty-eight units in the Jumping Josephine area of Nelson, British Columbia.

In order to exercise its option the Company must issue 100,000 shares of the Company to the vendor and incur an aggregate of \$40,000 in expenditures on or before the fourth anniversary date of the filing date of the mineral claim. The Company expended \$nil on exploration during the period ended September 30, 2007 (2006 - \$nil). With expenditure commitments being fulfilled and the issuance of common stock to the vendor under the agreement the claims have been transferred to the Company.

The Company entered into an additional agreement, which grants the Company the option to purchase a 100% interest in additional seven mineral claims in the Jumping Josephine area of Nelson, British Columbia.

In order to exercise its option the Company must pay \$100,000 to the vendor and incur an aggregate of \$500,000 in expenditures on or before the October 31, 2009. The Company expended \$95,408 exploration to the period ended September 30, 2007 (2006 - \$19,167).

The Company entered into a Option Agreement with Astral Mining Corporation, ("Astral"), whereby the Company will grant to Astral the right to earn up to 60% undivided interest in the Jumping Josephine Property. In order to earn their interest, Astral must spend \$2,100,000 in exploration on the property and issue to the Company 400,000 common shares in its capital within five years of the anniversary of the option agreement. The Company received \$450 for costs incurred in during the period ended September 30, 2007.

Chapleau Property – Sault Ste. Marie Mining Division, Ontario,

The Company entered into a joint venture agreement with Golden Chalice Resources Inc. (formerly International Chalice Resources Inc.) to further explore the Kimberlite dike with large diamond potential on the Chapleau property. Cost will be shared equally. The Company expended \$29,332 exploration during the period ended September 30, 2007 (2006 - \$26,393).

Other Properties – Southern British Columbia

On March 17, 2007, the Company exercised its right under a Grubstake Agreement granting the Company the option to purchase a 100% interest in five mineral claims comprising of twenty-eight units. The properties are known as the Sunrise, Midas, Chenier, Murphy and Alisa Lake Properties. Four (Sunrise, Chenier, Murphy and Midas) are located in the prolific Rossland-Republic trend and one (Alisa Lake) is in the Sullivan District in south eastern British Columbia.

The agreement requires issuance of 25,000 shares per property on execution and 25,000 shares in the next three anniversaries for a total of 100,000 for each property plus expenditures of \$40,000.00 on each property over 4 years, being a total of 500,000 shares. The Company expended a total of \$477,054 (Sunrise \$54,424; Chenier \$192,949; Murphy \$169,637; Midas \$55,538; and Alisa \$4,506) on the properties during the period ended September 30, 2007 (2006 - \$91,956). The Company issued 125,000 shares valued at \$0.60 and 125,000 shares valued at \$0.90 per share pursuant to this agreement.

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7 Mineral Properties: (continued)

Details of Mineral Properties: (continued)

Other Properties – Southern British Columbia (continued)

A bonus payment of 200,000 common shares is payable upon commencement of Commercial Production on any given property. The Company has the right to terminate the property agreements at anytime.

Additional properties have been staked and are currently being evaluated to determine the viability of further exploration or development. Once the Company has made its evaluation the property will be either be abandoned or acquired under the terms of the Grubstake Agreement.

On April 17, 2007, the Company entered into an option agreement with Astral Mining Corporation (“Astral”), whereby the Company gave the right to Astral to earn a 60% undivided interest in the Chenier property located in the West Kootenay region of in south eastern British Columbia.

In order to exercise its option Astral must issue 500,000 common shares to the Company and incur an aggregate of \$2,500,000 in expenditures for each mineral property on or before the fourth anniversary date of the option agreement. The Company received \$186,732 for costs incurred during the period ended September 30, 2007 (2006 - \$nil).

A bonus payment of 200,000 shares is payable upon commencement of Commercial Production on the property. Astral has the right to terminate the property agreements at anytime.

Mexico:

La Joya - Southern Sonora State, Mexico

On August 20, 2005, the Company acquired one mineral claim covering 713 hectares in the southern Sonora State region located between Navajoa and Alamos, Mexico. The Company expended \$14,714 on exploration during the period ended September 30, 2007 (2006 – \$nil).

Promontorio - Sonora State, Mexico

The Company entered into an agreement with Siete Companas 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 former producing Promontorio Mine Site and the surrounding properties and mineral rights known as the Promontorio Concession.

The claims cover approximately 37,000 hectares, and are located in the historic silver and gold producing Sierra Madre Region of Northwest Mexico. The Company expended \$569,439 on exploration to the period ended September 30, 2007 (2006 - \$23,623).

The agreement calls for the Company to pay up to \$1,375,000 U.S. in cash, issue up to 850,000 shares of Kootenay to ECO and Siete and pay a debt owing to FIFOMI in connection with the Promontorio Concession. The Company issued 300,000 shares at a deemed average price of \$0.82 per share and issued a further 150,000 shares at a value of \$1.05 per share pursuant to this agreement.

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7 Mineral Properties: (continued)

Details of Mineral Properties: (continued)

Mexico: (continued)

Promontorio - Sonora State, Mexico (continued)

In addition, there is a 2 per-cent net smelter return relating to the acquisition. The Company may upon commencement of commercial production or sooner purchase 50 per cent of the net smelter return for \$1,000,000 U.S. in order to reduce the total net smelter return to 1 per cent. The Company also has the right of first refusal on the remaining 1 per cent in the event that the ECO and Siete decide to sell it. Kootenay has also negotiated a settlement with FIFOMI on the properties outstanding debt; under the terms of the agreement the Company will pay FIFOMI 4,179,939 pesos (\$400,000 U.S.) over a five- year period.

Santa Lucia - Southern Sonora State, Mexico

On September 27, 2006, the Company entered into an agreement, which grants the Company the option to purchase a 100% interest in two mineral claims comprised of 9,350 hectares in the southern Sonora State region located between Navajoa and Alamos, Mexico.

In order to exercise its option the Company must issue 100,000 shares of the Company to the vendor and incur an aggregate of \$40,000 in expenditures on or before the fourth anniversary date of the filing date of the mineral claim. The Company expended \$289,294 on exploration to the period ended September 30, 2007 (2006 - \$107,231). The Company issued 25,000 shares at a deemed price of \$0.74 per share pursuant to this agreement.

The Company entered into a letter agreement dated June 6, 2006 with Klondike Silver Corp. ("Klondike"), whereby the Company will grant to Klondike the right to earn up to a 50% interest in the Santa Lucia property located in Sonora State, Mexico. In order to earn their interest, Klondike must spend \$1,000,000 U.S. in exploration on the property; pay \$25,000 U.S. in cash and issue to the Company 500,000 common shares in its capital within five years of the anniversary of the option agreement. The Company received 250,000 shares of Klondike pursuant to this agreement. The Company received \$226,796 for costs incurred to the period ended September 30, 2007 (2006 - \$255,554).

In addition, there is a 2.5-per-cent net smelter return relating to the acquisition. The Company may upon commencement of commercial production or sooner purchase 50 per cent of the net smelter return for \$1,000,000 U.S. in order to reduce the total net smelter return to 1.25 per cent. The Company also has the right of first refusal on the remaining 1.25 per cent in the event that the Cross group decides to sell it.

Starling Anomalies - Northwest Mexico

The Company entered into a letter agreement dated June 21, 2006 with Klondike Silver Corp. ("Klondike"), whereby the Company will grant to Klondike the right to earn up to a 50% interest in three mineral properties in Mexico. In order to earn their interest, Klondike must reimburse the Company \$250,000 U.S., and for each property optioned, spend \$1,000,000 U.S. on exploration and issue to the Company 500,000 common shares in its capital within five years of the anniversary of the option agreement. The Company expended \$81,304 on exploration to the period ended September 30, 2007 (2006 - \$66,850). The Company received \$49,942 for costs incurred to the period ended September 30, 2007 (2006 - \$nil).

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(Prepared by Management)

Unaudited

September 30, 2007 and September 30, 2006

7 Mineral Properties: (continued)

Details of Mineral Properties: (continued)

United States:

Elephant Mountain Property - Rampart Mining District, Alaska, U.S.A.

On December 12, 2003, the Company acquired seventy-one mineral claims in the Rampart mining district located eighty kilometres northwest of Fairbanks, Alaska.

The property is subject to a 1.5% net returns royalty to the vendors. The Company purchased the property for \$65,102 and expended \$173,698 on exploration to the period ended September 30, 2007 (2006 - \$nil).

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 Investor deposits

Investor deposits represent funds received in advance in respect of a private placement which closed in January 2007.

9 Share Capital:

a) Share Capital

Authorized

Unlimited common shares without par value

Unlimited preferred shares

Issued and Fully Paid

Common Shares	Number	Amount
Balance, December 31, 2005	9,851,800	\$ 1,247,031
Exercise of stock options	280,000	49,000
Private placement	793,500	227,975
Exercise of warrants	2,200,000	902,000
Exercise of warrants	1,000,000	410,000
Acquisitions of mineral claims	25,000	18,500
Acquisitions of mineral claims	50,000	37,500
Balance, December 31, 2006	14,200,300	\$ 2,892,006

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9 Share Capital: (continued)

Balance, December 31, 2006	14,200,300	\$	2,892,006
Private placement net of issuance cost of \$90,317	3,076,925		1,909,684
Warrant valuation	-		(896,552)
Exercise of warrants	803,500		404,750
Acquisitions of mineral claims	125,000		75,000
Acquisitions of mineral claims	300,000		244,901
Tax effect of 2006 flow-through shares	-		(153,881)
Acquisitions of mineral claims	25,000		30,000
Acquisitions of mineral claims	25,000		18,500
Acquisitions of mineral claims	150,000		157,500
Acquisitions of mineral claims	125,000		112,500
Balance, September 30, 2007	18,830,725	\$	4,794,408

- (viii) On January 12, 2007, the Company completed a private placement of 3,076,925 units at a price of \$0.65 per unit consisting of one common share and one common share purchase warrant. The share purchase warrant entitles the holder to acquire one common share at a price of \$0.80 per common share for a year of expiring eighteen months from the date the warrant is issued. Issuance costs of \$90,317 were netted against the proceeds. The fair value of warrants granted during the period is \$896,552. This has been determined using the Black-Scholes Option Pricing Model with the following assumptions: - risk free interest rate of 4.25%; - expected life of one and one half years and - expected volatility of 61%.
- (ix) On February 10, 2007, 793,500 warrants were exercised; each whole warrant entitled the holder to purchase one common share at a price of \$ 0.50 per common share for a total of \$396,750.
- (x) On March 17, 2007, the Company issued 125,000 common shares at a deemed price of \$0.60 per common share pursuant to "grub stake agreements" towards the purchase of a 100% in the Sunrise, Midas, Chenier, Murphy and Alisa Lake mineral claims.
- (xi) On January 12, 2007, the Company issued 300,000 common shares at an deemed average price of \$0.82 per common share pursuant to an agreement with Siete Companas 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 former producing Promontorio Mine Site and the surrounding properties and mineral rights known as the Promontorio Concession.
- (xii) In February 2007, the Company renounced for Canadian Income Tax purposes \$451,000 to investors. As a result 153,881, was charged to share capital as a share issue cost.
- (xiii) On April 5, 2007, the Company issued 25,000 common shares at a deemed price of \$1.20 per common share pursuant to "grub stake agreements" towards the purchase of a 100% in the Sunrise, Midas, Chenier, Murphy and Alisa Lake mineral claims.

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September 30, 2007 and September 30, 2006

9 Share Capital: (continued)

- (xiv) On June 8, 2007, the Company issued 25,000 common shares at a deemed price of \$0.74 per common share pursuant to “grubstaking and exploration agreements” towards the purchase of a 100% in the Santa Lucia mineral claims.
- (xv) On July 10, 2007, the Company issued 10,000 common shares from treasury upon the exercise of 10,000 share purchase warrants at an exercise price of \$0.80 for total proceeds of \$8,000.
- (xvi) On July 19, 2007, the Company issued 150,000 common shares at a deemed price of \$1.05 per common share being the second tranche pursuant to “exploration agreements” towards the purchase former producing Promontorio Mine Site and the surrounding properties and mineral rights known as the Promontorio Concession.
- (xvii) On September 17, 2007, the Company issued 125,000 common shares at a deemed price of \$0.90 per common share being the second tranche pursuant to “grub stake agreements” towards the purchase of a 100% in the Sunrise, Midas, Chenier, Murphy and Alisa Lake mineral claims.

b) Stock Options

The Company grants incentive stock options as permitted pursuant to the Company’s Stock Option Plan (“the Plan”) as approved by the shareholders. The Plan has been structured to comply with the rules of the TSX Venture Exchange. The aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date – including options granted prior to the adoption of the Plan. In addition, the number of shares that may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis.

All options granted may not be granted for a term exceeding five years, and the term will be reduced to one year following the date of death. If the Optionee ceases to be qualified to receive options from the Company those options shall immediately terminate. The Plan has a vesting period in which 25% is vested immediately and then an additional 25% is vested in each of the next six month periods. The following table provides details of stock options, including options to agents:

	September 30, 2007		September 30, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	1,425,000	\$ 0.75	280,000	\$ 0.175
Granted	445,000	0.90	1,025,000	0.710
Exercised	-	-	(280,000)	-
Cancelled or expired	-	-	-	-
Outstanding, ending	1,870,000	\$ 0.78	1,025,000	\$ 0.710

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(Prepared by Management)

Unaudited

September 30, 2007 and September 30, 2006

9 Share Capital: (continued)

During the quarter ended September 30, 2007, 445,000 stock options were granted of which 335,000 were granted to employees and 110,000 were granted to a consultant at a price of \$0.90 per common share. The stock options expire on September 18, 2012. The Company recorded stock-based compensation expense relating to the granting of these options totalling \$86,443 of which \$21,368 was attributable to the stock options granted to the consultant.

c) Share Purchase Warrants Outstanding

At September 30, 2007, 3,068,925 warrants are outstanding. Each whole warrant entitles the holder to purchase one-half of a common share at a price of \$0.80 per common share and expire on July 15, 2008.

	September 30, 2007		September 30, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	793,500	\$ 0.50	3,320,000	\$ 0.41
Granted	3,076,925	0.80	793,500	0.50
Exercised	(803,500)	0.50	(2,280,000)	0.41
Cancelled or expired	-	-	(120,000)	0.41
Outstanding, ending	3,066,925	\$ 0.80	1,713,500	\$ 0.45

d) Contributed Surplus

i) Options

The fair value of options granted during the period ended September 30, 2007 is \$88,443 (2006 - \$501,838). This has been determined using the Black-Scholes Option Pricing Model with the following assumptions: - risk free interest rate of 4.00%; - expected life of five years and - expected volatility of 111.07%.

ii) Warrants

The fair value of warrants granted during the period ended September 30, 2007 is \$896,552 (2006 - \$129,099). This has been determined using the Black-Scholes Option Pricing Model with the following assumptions: - risk free interest rate of 4.25%; - expected life of one and one half years and - expected volatility of 61%.

	September 30, 2007	September 30, 2006
Balance, beginning	\$ 639,197	\$ 8,260
Additions, during the period		
As a result of options granted	-	501,838
As a result of warrant issued	896,552	129,099
Balance, ending	\$ 1,535,749	\$ 639,197

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September 30, 2007 and September 30, 2006

9 Share Capital: (continued)

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option and warrant grants.

10 Income Taxes:

The provision for (recovery of) income taxes differs from the amount that would have resulted in applying Canadian federal and provincial statutory tax rates as follows:

	September 30 2007	September 30 2006
Loss before income taxes	\$ 438,797	\$ 193,661
Expected income tax recovery at statutory rates	164,491	65,109
Net adjustment for amortization not deducted for income tax	(1,930)	-
Non-deductible items for tax purposes	(2,855)	-
Unrecognised benefit of non-capital losses	(159,706)	(65,109)
Future income tax recovery	-	-
	\$ -	\$ -

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	September 30 2007	September 30 2006
Future income tax assets:		
Non-capital losses carried forward	\$ 542,877	\$ 249,775
Mineral properties	24,169	-
Equipment	5,186	-
	572,232	249,775
Flow through share renunciation	(153,881)	-
Valuation allowance	(418,351)	(249,775)
Future income tax assets	\$ -	\$ -

Estimated tax asset for the period is \$nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets. The estimated taxable temporary difference valuation allowance will be adjusted in the period it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

As at September 30, 2007, the Company has non-capital losses of approximately \$1,596,696 (2006 - \$747,435) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows:

2011	\$ 1,149
2012	26,700
2013	78,801
2014	167,304
2015	319,306
2016	533,713
2017	469,723

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September 30, 2007 and September 30, 2006

11 Non-cash Investing and Financing Activities:

The following transaction during the period did not include cash:

	September 30 2007	September 30 2006
Acquisition of Marketable securities	\$ -	\$ (30,000)
Acquisition of Mineral Claims	(646,401)	-
Sale of interest in Mineral Claims	-	30,000
Issuance of Share Capital	646,401	-

12 Comparative Amounts:

The prior period's comparative amounts have been reclassified to conform to the presentation adopted in the current period.

13 Related Party Transactions and Balances:

Except as disclosed elsewhere in these financial statements related party transactions are as follows:

As at September 30, 2007 - \$18,250 (2006 - \$23,464) was owed to directors, officers or companies controlled by directors or officers.

The following related party transactions were incurred in the normal course of business and are non-interest bearing, unsecured, due on demand and were measured at their fair value as determined by management.

	September 30 2007	September 30 2006
Management fees charged by a company controlled by a director	\$ 72,000	\$ -
Consulting and management fees charged by a company controlled by common directors	20,000	10,000
Consulting and management fees charged by a director	72,000	61,075
Consulting and accounting fees charged by a company controlled by an officer	\$ 25,108	\$ 28,375

14 Subsequent Events:

Subsequent to the period end the following transaction took place:

On October 23, 2007, the Company completed a private placement of 2,222,000 units at \$0.90 for gross proceeds of approximately \$2,000,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase a common share at a price of \$1.25 per share during for a period of 18 months after closing. Total finders fees of \$73,800 were paid agents. Subsequent to four months from closing, the Company has a right upon 30 days notice to holders, to accelerate conversion by warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than, \$2.25 per common share, for a period of twenty consecutive trading days.