

# **Kootenay Gold Inc.**

(An Exploration Stage Company)

**Vancouver, BC**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**for the three months ended**

**MARCH 31, 2007**

**and**

**MARCH 31, 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 note to these 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 consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

## **Auditor involvement**

The independent auditor of Kootenay Gold Inc. has not performed a review of the unaudited consolidated financial statements for the three months ended March 31, 2007 and March 31, 2006.

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED BALANCE SHEETS

(Prepared by management)

Unaudited

Exhibit 1

	<b>March 31 2007 \$</b>	March 31 2006 \$	December 31 2006 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	2,613,913	1,298,708	1,771,070
Accounts receivable	53,494	54,268	95,402
Prepaid	-	-	2,112
Marketable securities (Note 5)	165,500	18,000	165,500
	<b>2,832,907</b>	1,370,976	2,034,084
<b>Equipment</b> (Note 6)	<b>26,264</b>	1,471	35,676
<b>Mineral properties</b> (Note 7)	<b>2,077,594</b>	603,478	1,275,852
	<b>4,936,765</b>	1,975,975	3,345,612
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	554,956	59,507	133,380
Investor deposits (Note 8)	-	-	989,690
Exploration program advance	-	-	250,000
	<b>554,956</b>	59,507	1,373,070
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital</b> (Note 9)	<b>4,467,908</b>	2,555,106	2,892,006
<b>Contributed surplus</b> (Note 9)	<b>1,535,749</b>	8,260	639,197
<b>Deficit</b>	<b>(1,621,848)</b>	(646,948)	(1,558,661)
	<b>4,381,809</b>	1,916,418	1,972,542
	<b>4,936,765</b>	1,975,925	3,345,612

**Continued Operation** (Note 2)

**Subsequent Events** (Note 14)

Approved on Behalf of the Board:

*"Kenneth Berry"*  
Director

*"Jim McDonald"*  
Director

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Prepared by management)

Unaudited

Exhibit 2

	<b>Three month Period ended March 31 2007 \$</b>	Three month Period ended March 31 2006 \$
<b>Administrative Expenses</b>		
Amortization	10,931	119
General and administrative	56,569	49
Management fees	41,898	22,470
Professional	75,762	7,584
Regulatory and filing fees	30,795	20,572
Rent	1,500	1,500
<b>Loss before other</b>	<b>217,455</b>	52,294
<b>Other</b>		
Administration fee Income	371	-
Interest Income	16	104
Income tax – renunciation of flow-through shares	153,881	-
	<b>154,268</b>	104
<b>Loss for the year</b>	<b>63,187</b>	52,191
<b>Deficit, Beginning of Year</b>	<b>1,558,661</b>	594,757
<b>Deficit, End of Year</b>	<b>1,621,848</b>	646,948
<b>Basic and Diluted Earnings per Share</b>	<b>(0.004)</b>	(0.004)
<b>Weighted Average Number of Shares Outstanding</b>	<b>14,298,283</b>	13,125,300

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Prepared by management)

Unaudited

Exhibit 3

	<b>Three month Period ended March 31 2007 \$</b>	Three month Period ended March 31 2006 \$
<b>Cash Flows from Operating Activities</b>		
Net loss for the year	(63,187)	(53,714)
Add Items not involving an outlay of cash:		
Amortization	10,931	119
	(52,256)	(53,595)
Change in non-cash working capital balances:		
Accounts receivable	41,908	(53,980)
Prepaid expenses	2,112	-
Accounts payable and accrued liabilities	421,576	(26,687)
	413,340	(134,262)
<b>Cash Flows from Financing Activities</b>		
Investor deposits	(989,690)	-
Issuance of share capital	2,472,453	1,338,618
Exploration program advance	(250,000)	-
	1,232,763	1,338,618
<b>Cash flows from Investing Activities</b>		
Change in equipment	(1,518)	-
Change in mineral properties	(801,742)	(36,851)
	(803,260)	(36,851)
<b>Increase in Cash and Cash equivalents during the year</b>	<b>842,843</b>	<b>1,167,505</b>
<b>Cash and Cash Equivalent, Beginning</b>	<b>1,771,070</b>	<b>131,203</b>
<b>Cash and Cash Equivalent, Ending</b>	<b>2,613,913</b>	<b>1,298,708</b>

Non-cash Investing and Financing Activities (Note 11)

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)

Unaudited

March 31, 2007 and March 31, 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. The Acquisition Agreement provided for the Company to acquire all of the issued and outstanding shares of Kootenay for a deemed purchase price of \$208,728. The Company paid the purchase price by issuing 3,615,000 common shares. The acquisition was recorded by the Company at the net book value of the net assets of Kootenay, which approximated their respective fair market values. The net assets acquired by the Company from Kootenay were as follows:

Current Assets	\$	18,913
Mineral Properties		390,628
Current Liabilities		<u>(200,813)</u>
<u>Net Assets</u>	\$	<u>208,728</u>

Effective March 7, 2005, the Company 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

March 31, 2007 and March 31, 2006

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### 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 development 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

(Prepared by management)

Unaudited

March 31, 2007 and March 31, 2006

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### 3 Significant Accounting Policies: (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 year-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 year. 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.

#### 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.

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)

Unaudited

March 31, 2007 and March 31, 2006

### 3 Significant Accounting Policies: (continued)

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 March 31, 2007 is \$131,000 2006 - \$23,750).

### 6 Equipment:

	Cost	Accumulated Amortization	March 31 2007 Net	March 31 2006 Net
Automotive	\$ 32,554	\$ 13,184	\$ 19,370	\$ -
Computer	11,498	4,604	6,894	1,471
	<u>\$ 44,052</u>	<u>\$ 17,788</u>	<u>\$ 26,264</u>	<u>\$ 1,471</u>

# KOOTENAY GOLD INC.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)  
Unaudited

March 31, 2007 and March 31, 2006

### 7 Mineral Properties:

	Conner Creek	Jumping Josephine	Chapleau	Other	Canada Total	Mexico	United States	March 31 2007 Total	March 31 2006 Total
Acquisition costs									
Balance, beginning of year	\$ 24,250	\$ 24,250	\$ -	\$ 13,991	\$ 62,491	\$ 135,124	\$ 65,102	\$ 262,717	\$ 116,187
Incurred during the year	-	-	-	60,000	60,000	312,360	-	372,360	-
Sale of 50% interest	-	(7,500)	-	-	(7,500)	-	-	(7,500)	-
Abandoned during the year	-	-	-	-	-	-	-	-	-
Balance, end of year	24,250	16,750	-	73,991	\$ 129,991	\$ 447,484	\$ 65,102	\$ 642,577	\$ 116,187
Exploration Expenditures									
Assaying and Lab	\$ -	\$ -	\$ 910	\$ 754	\$ 1,664	\$ 12,842	\$ -	\$ 14,506	\$ 4,228
Camp Costs	-	-	-	-	-	-	-	-	-
Drafting	-	-	-	-	-	-	-	-	-
Geological mapping	660	-	-	2,805	3,465	50,475	-	53,940	464
Geophysics	-	-	-	-	-	484,386	-	484,386	-
Maintenance	-	-	38	-	38	8,406	-	8,444	-
Miscellaneous	-	-	-	-	-	1,898	-	1,898	-
Prospecting/Project generation	-	-	-	16,099	16,099	32,909	-	49,008	31,436
Rock Sampling	-	-	-	3,551	3,551	58,620	-	62,171	722
	660	-	948	23,209	24,817	649,536	-	674,354	36,850
Balance, beginning of year	35,308	94,099	22,846	405,043	557,296	294,431	161,408	1,013,135	450,441
Recovery of costs Mineral properties abandoned during the year	(660)	-	-	-	-	(251,812)	-	(252,472)	-
Balance, end of year	35,308	94,099	23,794	428,252	-	692,155	-	1,435,017	487,291
Cumulative mineral property costs	\$ 59,558	\$ 110,849	\$ 23,794	\$ 502,243	\$ 619,787	\$ 1,139,639	\$ 226,510	\$ 2,077,594	\$ 603,478

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)

Unaudited

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### 7 Mineral Properties: (continued)

	Connor Creek \$	Elephant Mountain \$	Jumping Josephine \$	Other \$	Total \$
Acquisition costs					
Balance, beginning	18,000	65,102	18,000	15,085	116,187
Incurred during	-	-	-	-	-
Abandoned during	-	-	-	-	-
Balance, ending	18,000	65,102	18,000	15,085	116,187
Exploration Expenditures					
Assaying and lab costs	-	-	-	4,228	4,228
Camp costs	-	-	-	-	-
Drafting	-	-	-	-	-
Geological mapping	-	-	-	464	464
Geophysics	-	-	-	-	-
Maintenance	-	-	-	-	-
Prospecting	-	-	-	31,436	31,436
Rock Sampling	-	-	-	722	722
	-	-	-	36,850	36,850
Balance, beginning	27,262	128,042	126,902	168,235	450,441
Recovery of costs	-	-	-	-	-
Mineral properties abandoned	-	-	-	-	-
Balance ending	27,262	128,042	126,902	205,805	487,291
Cumulative mineral property costs	45,262	193,144	144,902	220,170	603,478

### Details of Mineral Properties:

#### Canada:

##### Connor Creek Property - Trail Creek Mining Division, British Columbia

The Company has entered into an agreement, which grants 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 common 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 \$660 on the property during the year ended March 30, 2007 (2006 - nil). The Company has issued 25,000 common shares valued at \$0.25, 25,000 common shares valued at \$0.10, 25,000 common shares valued at \$0.37, and 25,000 common shares valued at \$0.75 per share pursuant to this agreement.

The Company has 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 Company received \$660 for costs incurred during the period ended March 31, 2007 (2006 - \$18,000).

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)

Unaudited

March 31, 2007 and March 31, 2006

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### 7 Mineral Properties: (continued)

#### **Jumping Josephine Property - Nelson Mining Division, British Columbia**

The Company has entered into an agreement, which grants 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 common 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 the property during the year ended March 30, 2007 (2006 - nil). The Company has issued 25,000 common shares valued at \$0.25, 25,000 common shares valued at \$0.10, 25,000 common shares valued at \$0.37 and 25,000 common shares valued at \$0.75 per share each, pursuant to this agreement.

The Company has 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 nil on the property during the period ended March 30, 2007 (2006 - nil).

The Company has entered into a Memorandum of Understanding 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 nil for costs incurred during the period ended March 31, 2007.

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

The Company has 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 \$22,847 on the property during the year ended March 30, 2007 (2006 - nil).

#### **Other Properties – Southern British Columbia**

On March 17, 2007, the Company has entered into an agreement, which grants 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.

In order to exercise its option the Company must issue 100,000 common shares of the Company to the vendor and incur an aggregate of \$40,000 in expenditures for each mineral property on or before the fourth anniversary date of the filing date of the mineral claim. The Company expended \$5,421 on the property during the year ended March 30, 2007 (2006 - nil).

# KOOTENAY GOLD INC.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7 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.

The rest of the 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 developed further.

#### Mexico:

##### La Joya - Southern Sonora State, Mexico

On August 20, 2006, the Company acquired one mineral claim covering 713 hectares in the southern Sonora State region located between Navajoa and Alamos, Mexico. The Company expended nil on the property during the period ended March 30, 2007 (2006 - nil).

##### Promontorio - Sonora State, Mexico

The Company has 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 \$158,518 on the property during the period ended March 30, 2007 (2006 - nil). The Company has issued 25,000 shares valued at \$0.74 pursuant to this agreement.

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.

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 has 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 common 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 \$146,400 on the property during the year ended March 30, 2007 (2006 - nil).

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)

Unaudited

March 31, 2007 and March 31, 2006

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### 7 Mineral Properties: (continued)

The company has 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. 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 \$1,812 for costs incurred during the period ended March 31, 2007 (2006 - nil).

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 has 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 \$35,848 on the property during the period ended March 30, 2007 (2006 - nil). The Company has received \$219,094 U.S. (\$250,000Cnd) for costs incurred during the period ended March 31, 2007 (2006 - nil).

#### 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 nil on the property during the year ended March 31, 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

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by management)

Unaudited

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### 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, 2004	2,866,800	\$ 236,928
Shares Issued For Cash:		
Private placement net of issuance cost of \$36,750	2,320,000	543,250
Private placement net of issuance cost of \$10,375	1,000,000	239,625
Shares Issued for other than cash:		
Acquisition of Kootenay Gold Corp.	3,615,000	208,728
Acquisitions of mineral claims	50,000	18,500
Private placement	793,500	227,975
Exercise of stock options	280,000	49,000
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
Private placement net of issuance cost of \$90,317	3,076,925	1,909,684
Warrant valuation	-	(896,552)
Exercise of warrants	793,500	396,750
Acquisitions of mineral claims	125,000	75,000
Acquisitions of mineral claims	300,000	212,400
Tax effect of 2006 flow-through shares	-	(153,881)
<b>Balance, March 31, 2007</b>	<b>18,495,725</b>	<b>\$ 4,467,908</b>

- (i) On March 7, 2005, in conjunction with closing of the closing of the Qualifying Transaction, the Company completed a private placement of 2,320,000 units at a price of \$0.25 per unit, with each unit comprised of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to purchase one-half common share and one-half flow-through common share at a price of \$0.41 on or before March 7, 2006. Issuance costs of \$36,750 were netted against the proceeds.
- (ii) On November 18, 2005 the Company completed a private placement comprising of 1,000,000 units at a price of \$0.25 per unit consisting of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.41 on or before November 18, 2006. Issuance costs of \$10,375 were netted against the proceeds.
- (iii) On March 7, 2005 the Company acquired all of the issued and outstanding common shares of Kootenay Gold Corp. for a deemed purchase price of \$208,728, which represents the net book value of the net assets of Kootenay Gold Corp. The Company issued 3,615,000 common shares to complete this purchase.

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### 9 Share Capital: (continued)

- (iv) On June 7, 2005 the Company issued 50,000 common shares pursuant to "grub stake agreements" towards the purchase of a 100% in the Conner Creek and Jumping Josephine mineral claims.
- (v) On January 22, 2006, 280,000 options to purchase common shares were exercised at an average price of \$0.175 per common share.
- (vi) On February 10, 2006, the Company completed a private placement of 793,500 units at a price of \$0.45 per unit consisting of one share and one common share purchase warrant.  
  
The share purchase warrant entitles the holder to acquire one common share at a price of \$0.50 per common share for a year of expiring twelve months from the date the warrant is issued. The warrants were valued at \$129,099.
- (vii) On March 7, 2006, 2,200,000 warrants were exercised at \$0.41 per common share, of these shares, 1,000,000 shares were flow through shares during the year.
- (viii) On November 19, 2006, 1,000,000 warrants were exercised; each whole warrant entitled the holder to purchase one common share at a price of \$0.41 for a total of \$410,000.
- (viii) On December 4, 2006, the Company issued 25,000 common shares at a deemed price of \$0.74 per common share pursuant to "grub stake agreements" towards the purchase of a 100% in the Promontorio mineral claims.
- (ix) On December 5, 2006, the Company issued 50,000 common shares at a deemed price of \$0.75 per common share pursuant to "grub stake agreements" to complete the purchase a 100% in the Conner Creek and Jumping Josephine mineral claims.
- (x) 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 year 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%.
- (xi) 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.
- (xii) 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.
- (xiii) During the period, 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.
- (xiv) 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.

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### 9 Share Capital: (continued)

#### 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 5 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 year in which 25% is vested immediately and then an additional 25% is vested in each of the next six month years. The following table provides details of stock options, including options to agents:

	March 31, 2007		March 31, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	1,425,000	\$ 0.746	280,000	\$ 0.175
Granted	-	-	-	-
Exercised	-	-	(280,000)	0.175
Cancelled or expired	-	-	-	-
Outstanding, ending	1,425,000	\$ 0.746	-	\$ -

During the year ended December 31, 2006, 1,025,000 stock options were granted at a price of \$0.71 per common share, which expire April 12, 2011, and 400,000 stock options were granted at a price of \$0.84 per common share, which expire December 5, 2011. The weighted fair value of the stock options granted during the year was \$0.55.

#### c) Share Purchase Warrants Outstanding

At March 31, 2007, 3,076,925 share purchase warrants are outstanding. Each whole warrant entitles the holder to purchase one common share at a price of \$0.80 per common share for a period expiring eighteen months from the date the warrant is issued.

	March 31, 2007		March 31, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	793,500	\$ 0.50	-	\$ -
Granted	3,076,925	0.80	-	-
Exercised	793,500	0.50	-	-
Cancelled or expired	-	-	-	-
Outstanding, ending	3,076,925	\$ 0.80	-	\$ -

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### 9 Share Capital: (continued)

#### d) Contributed Surplus

	March 31 2006	March 31 2006
Balance, beginning of period	\$ 639,197	\$ 8,260
Additions, during the period		
As a result of options granted	-	-
As a result of warrant issued	896,552	-
Balance, end of year	\$ 1,535,749	\$ 8,260

#### Warrants

The fair value of warrants granted during the year 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%.

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:

	March 31 2007	March 31 2006
Loss before income taxes	\$ 217,043	\$ 53,714
Expected income tax recovery at statutory rates	\$ 73,794	18,263
Other items not deducted for income tax	3,716	-
Unrecognised benefit of non-capital losses	(77,510)	(18,263)
Future income tax recovery	\$ -	\$ -

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### 10 Income Taxes: (continued)

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

	March 31 2007	March 31 2006
Future income tax assets:		
Non-capital losses carried forward	\$ 431,723	\$ 223,467
Mineral properties	24,254	-
Equipment	6,056	-
	<u>462,033</u>	<u>223,467</u>
Flow through share renunciation	(153,881)	-
Valuation allowance	<u>(308,152)</u>	<u>(223,437)</u>
Future income tax assets	<u>\$ -</u>	<u>\$ -</u>

Estimated tax asset for the year 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 year 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 March 31, 2007, the Company has non-capital losses of approximately \$1,190,136 (2006 - \$657,255) 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:

2008	\$ 1,149
2009	26,700
2010	78,801
2011	167,304
2012	319,306
2013	533,713
2014	63,163

### 11 Non-cash Investing and Financing Activities:

The following transaction during the year did not include cash:

	March 31 2007	March 31 2006
Acquisition of Accounts Receivable.	\$ -	\$ (18,125)
Acquisition of Marketable securities	-	-
Acquisition of Mineral Claims	(287,400)	(421,427)
Sale of interest in Mineral Claims	-	-
Acquisition of Accounts Payable	-	212,323
Issuance of Share Capital	-	227,229

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### 12 Related Party Transactions and Balances:

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

As at March 31, 2007 - \$2,500 (2006 - \$6,560) was owed to a director 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.

	March 31 2007	March 31 2006
Management fees charged by a company controlled a director	\$ 24,000	\$ -
Consulting and management fees charged by a company controlled by common directors	5,000	-
Consulting and management fees charged by a director	24,000	22,470
Consulting and accounting fees charged by a company controlled by an officer	\$ -	13,830

### 13 Comparative Amounts:

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

### 14 Subsequent Events:

Subsequent to the year end the following transactions took place:

On April 17, 2007, the Company has 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 the 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

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