



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended

March 31, 2009

and

March 31, 2008

Notice to Shareholders

Responsibility for Financial Statements

The accompanying interim 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 accompanying 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 months ended March 31, 2009 and March 31, 2008.

KOOTENAY GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

Exhibit 1

	March 31 2009	December 31 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 14,571,848	\$ 15,911,376
Accounts receivable and advances	843,506	995,324
Prepaid expenses	136,010	108,030
Marketable securities (Note 4)	165,200	267,238
Total current assets	15,716,564	17,281,968
Equipment (Note 5)	155,907	91,447
Exploration advances	22,572	22,572
Exploration deposits	-	-
Mineral properties (Note 6)	13,133,748	12,173,648
	\$ 29,028,791	\$ 29,569,635

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 416,585	\$ 683,909
Investor deposits	-	37,500
Total current liabilities	416,585	721,409

SHAREHOLDERS' EQUITY

Share capital (Note 7)	23,300,133	23,258,809
Contributed surplus (Note 7)	11,072,824	10,845,151
Accumulated other comprehensive income (loss) (Exhibit 3)	(385,910)	(460,355)
Deficit	(5,374,841)	(4,795,379)
	28,612,206	28,848,226
	\$ 29,028,791	\$ 29,569,635

Continued Operations and Going Concern (Note 2)

Approved on Behalf of the Board:

"James McDonald"
Director

"Kenneth Berry"
Director

- see accompanying notes -

KOOTENAY GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

Exhibit 2

	For the three months ended	
	March 31 2009	March 31 2008
Administrative Expenses		
Amortization	\$ 7,143	\$ 2,763
Foreign exchange loss	21,477	49,728
General and administrative	143,946	123,162
Management fees	110,186	46,300
Stock-based compensation (Note 8)	227,673	62,971
Professional fees	5,067	15,807
Regulatory and filing fees	10,010	53,341
Rent	12,320	11,968
Loss before Other Items	537,822	366,040
Other Items		
Loss on sale of marketable securities	(133,508)	-
Administration income	19,734	82,463
Interest income	72,134	14,986
	(41,640)	97,449
Loss for the Period	579,462	268,591
Deficit, Beginning	4,795,379	2,609,341
Deficit, Ending	\$ 5,374,841	\$ 2,877,932
Basic and Diluted Earnings (Loss) per Share	\$ (0.016)	\$ (0.011)
Weighted Average Number of Shares Outstanding	36,874,874	23,703,060

- see accompanying notes -

KOOTENAY GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Exhibit 3

	For the three months ended	
	March 31 2009	March 31 2008
Accumulated other comprehensive (loss) income, beginning of year	\$ (460,355)	\$ 47,000
Other comprehensive income (loss)	74,445	(142,750)
Accumulated other comprehensive loss, end of year	\$ (385,910)	\$ (95,750)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 4

	For the three months ended	
	March 31 2009	March 31 2008
Net loss	\$ (579,462)	\$ (268,591)
Other comprehensive income (loss)		
Unrealized income (loss) on available-for-sale financial assets arising during the period	74,445	(142,750)
Total other comprehensive income (loss)	74,445	(142,750)
Comprehensive loss	\$ (505,017)	\$ (411,341)

- see accompanying notes -

KOOTENAY GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Exhibit 5

	For the three months ended	
	March 31 2009	March 31 2008
Cash Flows from Operating Activities		
Net loss for the period	\$ (579,462)	\$ (268,591)
Add items not involving any outlay of cash:		
Stock-based compensation	227,673	62,971
Loss from the sale of marketable securities	133,508	-
Amortization	7,143	2,763
	(211,138)	(202,857)
Changes in non-cash working capital balances:		
Accounts receivable and advances	151,818	(648,457)
Prepaid expenses	(27,980)	(71,870)
Exploration advances received	-	(249,450)
Accounts payable and accrued liabilities	(267,324)	121,250
	\$ (354,624)	\$ (1,051,384)
Cash Flows from Financing Activities		
Investor deposits	\$ -	\$ (59,200)
Issuance of share capital, net of share issuance costs	3,824	8,555,671
	\$ 3,824	\$ 8,496,471
Cash Flows from Investing Activities		
Proceed from the sale of marketable securities	\$ 42,975	\$ -
Exploration advances paid		7,177
Investment in equipment	(71,603)	(29,784)
Investment in mineral properties	(960,100)	(585,007)
	\$ (988,728)	\$ (607,614)
Increase (Decrease) in Cash and Cash Equivalents During the Period	(1,339,528)	6,837,473
Cash and Cash Equivalents, Beginning of the Period	15,911,376	1,566,191
Cash and Cash Equivalents, End of the Period	\$ 14,571,848	\$ 8,403,664

Supplemental Disclosure of Cash and Non-Cash Activities (Note 10)

- see accompanying notes -

KOOTENAY GOLD INC.
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and March 31, 2008

1 Nature of Operations:

Kootenay Gold Inc. (the "Company") is an exploration stage company, 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.

2 Continued Operations and Going Concern:

These interim unaudited consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the three months ended March 31, 2009 and 2008, the Company experienced operating losses and negative operating cash flows, operations of the Company having been primarily funded by the issuance of share capital. Continued operations are dependent on the Company's ability to complete public equity financing or generate profitable operations in the future.

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

	March 31 2009	March 31 2008
Deficit	\$ 5,374,841	\$ 2,877,932
Working capital	\$ 15,299,979	\$ 9,259,313

3 Significant Accounting Policies:

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements, applied on a consistent basis. These interim financial statements follow the same significant accounting policies and methods of application as those disclosed in Note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2008 (the "Annual Financial Statements"). Accordingly, they do not include all disclosures required for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Annual Financial Statements.

The preparation of these interim unaudited consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

KOOTENAY GOLD INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Recent accounting pronouncements issued by the CICA, which have not yet been adopted by the Company.

Transition to International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board (AcSB) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with International Financial Reporting Standards over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. The Company has not assessed the impact of the initiative on its financial statements.

4 Marketable Securities:

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value at the end of the reporting period. Market value as at March 31, 2009 is \$165,200 (2008 – \$223,000), resulting in other comprehensive loss of \$385,910 (2008 – \$142,750).

5 Equipment:

	Cost		Accumulated Amortization		2009 Net		2008 Net
Vehicles	\$ 114,279	\$	27,301	\$	86,978	\$	43,409
Computer	88,779		19,850		68,929		32,106
	\$ 203,058	\$	47,151	\$	155,907	\$	75,515

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and March 31, 2008

6 Mineral Properties:

	Canada		Santa	Sonora	Los		El		Mexico	United	2009	2008	
	Total	Promontorio	Lucia	Anomalies	Chinos	Opochi	Cuervo	Espiritu*	Other	Total	States	Total	Total
	\$	\$	\$	\$	\$				\$	\$	\$	\$	\$
Acquisition Costs													
Balance, beginning	706,372	2,612,394	87,224	502,221	48,412	-	-	-	5,058	3,255,309	65,102	4,026,783	1,511,477
Incurred	-	125,505	-	-	750	-	-	-	-	126,255	-	126,255	554,291
Balance, ending	706,372	2,737,899	87,224	502,221	49,162	-	-	-	5,058	3,381,564	65,102	4,153,038	2,065,768
Exploration Expenditures													
Balance, beginning	3,124,398	5,068,309	459,455	1,831,135	116,545	35,122	194,722	213,438	14,709	7,933,435	216,713	11,274,546	4,626,865
Assaying and Lab	589	17,586	-	69,300	-	-	-	-	-	86,886	-	87,475	103,286
Camp Costs	-	8,404	-	51,835	-	-	-	-	-	60,239	-	60,239	97,071
Drafting	1,750	-	-	-	-	-	-	-	-	-	-	1,750	1,250
Drilling	-	12,108	-	-	-	-	-	-	-	12,108	-	12,108	130,617
Geological mapping	21,080	20,871	-	845	315	1,575	39	867	-	24,512	-	45,592	93,343
Geophysics	-	187,784	-	-	-	-	-	-	-	187,784	-	187,784	134,601
Maintenance	1,650	47,741	8,482	79,200	663	946	9,661	17,692	-	164,385	-	166,035	339,031
Miscellaneous	3,064	1,652	-	-	-	-	-	-	-	1,652	-	4,716	5,810
Prospecting	23,313	115,330	598	95,609	6,999	9,277	626	3,712	-	232,151	-	255,464	81,210
Rock Sampling	-	41,544	4,500	-	-	-	-	-	-	46,044	-	46,044	22,639
Incurred	51,446	453,020	13,580	296,789	7,977	11,798	10,326	22,271	-	815,761	-	867,207	1,008,859
Balance, ending	3,175,844	5,521,329	473,035	2,127,924	124,522	46,920	205,048	235,709	14,709	8,749,196	281,815	12,141,753	5,635,724
Total property balance	3,882,216	8,259,228	560,259	2,630,145	173,684	46,920	205,048	235,709	19,767	12,130,760	281,815	16,294,791	7,701,492
Recovery of costs	(1,058,841)	-	(605,453)	(1,158,691)	-	-	(168,419)	(169,639)	-	(2,102,202)	-	(3,161,043)	(2,160,831)
Abandoned	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative mineral property costs	2,823,375	8,259,228	(45,194)	1,471,454	173,684	46,920	36,629	66,070	19,767	10,028,558	281,815	13,133,748	5,540,662

*Joint Venture Project

KOOTENAY GOLD INC.

(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and March 31, 2008

6 Mineral Properties (Canada):

	Alisa Lake \$	Chapleau* \$	Chenier \$	Conner Creek \$	CP Midas \$	Deer Creek \$	Monashee \$	Jumping Josephine* \$	Murphy \$	Sunrise \$	Rosetta* \$	Other \$	2009 Total \$	2008 Total \$
Acquisition Costs														
Balance, beginning	82,000	-	82,800	24,250	82,000	49,039	46,250	79,250	82,000	109,500	51,093	18,190	706,372	341,399
Incurred	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance, ending	82,000	-	82,800	24,250	82,000	49,039	46,250	79,250	82,000	109,500	51,093	18,190	706,372	341,399
Exploration Expenditures														
Balance, beginning	28,653	98,728	199,975	489,082	61,515	103,074	154,457	684,133	197,520	55,599	165,744	885,918	3,124,398	1,715,603
Assaying and Lab	16	-	-	2	-	67	-	-	-	-	54	450	589	32,739
Camp Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drafting	-	-	-	-	-	-	-	-	-	-	-	1,750	1,750	1,250
Drilling	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Geological mapping	-	-	-	-	-	-	-	-	-	-	-	21,080	21,080	60,318
Geophysics	-	-	-	-	-	-	-	-	-	-	-	-	-	550
Maintenance	-	-	-	825	-	-	-	-	825	-	-	-	1,650	825
Miscellaneous	-	-	-	-	17	-	-	-	-	-	3,047	-	3,064	825
Prospecting	5,690	-	-	-	-	-	-	-	-	-	-	17,623	23,313	7,327
Rock Sampling	-	-	-	-	-	-	-	-	-	-	-	-	-	13,039
Incurred	5,706	-	-	827	17	67	-	-	825	-	3,101	40,903	51,446	116,873
Balance, ending	34,359	98,728	199,975	489,909	61,532	103,141	154,457	684,133	198,345	55,599	168,845	926,821	3,175,844	1,832,476
Total property balance	116,359	98,728	282,775	514,159	143,532	152,180	200,707	763,383	279,520	165,099	219,938	945,011	3,882,216	2,173,875
Recovery of costs	-	-	(254,959)	(485,872)	-	-	-	(145,950)	(172,060)	-	-	-	(1,058,841)	(875,846)
Abandoned	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative mineral property costs	116,359	98,728	27,816	28,287	143,532	152,180	200,707	617,433	108,285	165,099	219,938	945,011	2,823,375	1,298,029

*Joint Venture Project

KOOTENAY GOLD INC.
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and March 31, 2008

6 Mineral Properties (continued):

Details of Mineral Properties - Canada

Connor Creek Property - Trail Creek Mining Division, British Columbia

The Company exercised its right under a Grubstake Agreement dated March 20, 2003 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 July 23, 2007. The Company has expended a total of \$489,909 on the property to the period ended March 31, 2009 (2008 - \$464,432). The Company has issued 25,000 shares valued at \$0.25, 25,000 shares valued at \$0.10, 25,000 shares valued at \$0.37, and 25,000 shares valued at \$0.75 per share each, pursuant to this agreement. 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 granted the right to Amador to earn a 50% undivided interest in the Connor Creek property. During the year ended December 31, 2008, the Company received notice of termination of the option agreement from Amador, during the term of the agreement, the Company received accumulative reimbursements in the amount of \$485,872 for costs incurred.

Jumping Josephine Property - Nelson Mining Division, British Columbia

The Company exercised its right under a Grubstake Agreement dated March 20, 2003 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 July 23, 2007. The Company issued 25,000 shares valued at \$0.25, 25,000 shares valued at \$0.10, 25,000 shares valued at \$0.37 and 25,000 shares valued at \$0.75 per share each, pursuant to this agreement. 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 dated June 30, 2005, 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 \$97,000 to the vendor and incur an aggregate of \$500,000 in expenditures on or before the October 31, 2009.

The Company entered into an option agreement with Astral Mining Corporation, ("Astral") on April 11, 2006, whereby the Company will grant to Astral the right to earn up to 60% undivided interest in the Jumping Josephine Property. Astral have fulfilled its obligations under the option agreement by spending \$2,100,000 in exploration on the property and issuing to the Company 400,000 common shares. Under the joint venture agreement the Company is carrying a 40% interest and incurred \$684,133 to the period ending March 31, 2009.

KOOTENAY GOLD INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6 Mineral Properties (continued):

Chapleau Property – Sault Ste. Marie Mining Division, Ontario

The Company entered into a 50/50 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 on March 1, 2006. The Company expended \$98,728 in exploration to the period ended March 31, 2009 (2008 - \$92,958).

Other Properties – Southern British Columbia

On September 27, 2006, 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 Rossland-Republic trend and Alisa Lake is in the Sullivan District in south eastern British Columbia.

The agreement requires issuance of 25,000 shares per property on September 27, 2006 and 25,000 shares in the next three anniversaries (September 27, 2007; September 27, 2008; September 27, 2009) for a total of 100,000 for each property, being a total of 500,000 shares. The Company must also make expenditures of \$40,000 on each property by April 1, 2011. The Company expended a total of \$6,548 (Murphy \$825; Alisa \$5,706 and Midas \$17) on the properties during the three months ended March 31, 2009 (2008 - \$3,025). The Company issued 150,000 shares valued at \$1.10; 125,000 shares valued at \$0.90; 125,000 shares valued at \$1.00 and 125,000 shares valued at \$1.28 per share pursuant to this agreement.

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.

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. During the year ended December 31, 2008, Astral exercised its right to terminate the option agreement, the Company received accumulative reimbursements in the amount of \$254,959 prior to Astral terminating the agreement.

During the year ended December 31, 2008, the option agreement on the Murphy Property with Abitibi Mining Corp (“Abitibi”) was terminated by the optionee. The Company received 100,000 shares of Abitibi and total accumulative reimbursements in the amount of \$172,060 for costs incurred up to the period ended December 31, 2008.

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6 Mineral Properties (continued):

Under the terms of the Kennedy Grubstake Agreement dated March 20, 2003, on July 2, 2008, Kootenay Gold Inc. elected to option three additional properties namely, Deer Park, Rosetta Creek and Monashee. All projects are located in the West Kootenay region of British Columbia. Deer Park covers 10,573 hectares in 24 claims, Monashee covers 11,459 hectares in 24 claims and Rosetta Creek covers 11,588 hectares in 26 claims. The Company has expended a total of \$426,443 (Deer Park \$152,180; Monashee \$154,457 and Rosetta \$168,845).

Under the terms of the Grubstake Agreement each property requires a work commitment of \$40,000 over three years and share payments of 25,000 shares on election of the option and 25,000 shares on each of years one, two and three to maintain the option in good standing. If production is achieved on a specific property a bonus of 200,000 shares would be paid. The Company issued 75,000 common shares valued at \$1.85 per share pursuant to the terms of the agreement.

On November 24, 2008, the Company entered into an option agreement with Theia Resources ("Theia"), whereby the Company gave the right to Theia to earn a 60% undivided interest in the Rosetta Creek property. In order to exercise its option, Theia must issue 400,000 common shares to the Company with 100,000 issuable on the fifth day after the regulatory approval and the remaining shares issued in equal amounts on the anniversary of the agreement for the following three years. An aggregate of \$1,000,000 in exploration expenditures must be expended by Theia on the mineral property within a five year period commencing regulatory approval.

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 evaluations the properties will be either be abandoned or acquired under the terms of the Grubstake Agreements.

Details of Mineral Properties - Mexico

Promontorio - Sonora State, Mexico

The Company entered into an agreement on October 20, 2006 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 \$453,020 on exploration for the three months ended March 31, 2009 (2008 - \$437,720).

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 to pay a debt owing to FIFOMI in connection with the Promontorio Concession. The Company issued 300,000 shares valued at \$1.15 per share; 150,000 shares valued at \$1.05 per share; 200,000 shares with a average value of \$1.93 per share; 50,000 shares valued at \$1.68 per share and 150,000 shares valued at \$2.11 per share pursuant to this agreement.

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. The Company has also negotiated a settlement with FIFOMI on the properties outstanding debt; under the terms of the agreement the Company will pay FIFOMI 4,218,935 pesos (\$400,000 U.S.) over a five- year period.

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6 Mineral Properties (continued):

Santa Lucia - Southern Sonora State, Mexico

On May 1, 2006, amended 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. The Company expended \$13,580 on exploration during the three months ended March 31, 2009 (2008 - \$14,487). The Company under a grubstaking agreement dated June 15, 2005 issued a total of 75,000 shares, with three tranches of 25,000 shares valued at \$0.74; \$1.00 and \$1.35 per share respectively pursuant to this agreement. 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.

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 by June 14, 2009. The Company received 500,000 shares of Klondike pursuant to this agreement. During the three months ended March 31, 2008, the Company received notice of termination from Klondike on the Santa Lucia option agreement, the Company's, \$605,453 has been invoiced as recoverable costs to the period up to termination.

Sonora Anomalies - Northwest Mexico

The Company entered into an agreement dated June 21, 2006 with Klondike Silver Corp. ("Klondike"), whereby the Company granted 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 within two years of the exchange approval date which is yet to be determined. In June 2007, under the same terms as the initial agreement, Klondike agreed to increase the number of properties by three.

On March 31, 2008, the Company announced the completion of six option agreements with Klondike Silver Corp. ("Klondike") on six of the Company's 100% owned mineral concessions in the Sierra Madre Region of Northwest Mexico. The six concessions selected by Klondike include two epithermal precious metal settings (Suzanne and Ofelia), three porphyry settings (Los Alamos, Cerro Colorado and Espiritu) and one skarn (Cuervo). Under the terms of each option agreement, Klondike can earn a 50% undivided interest in the mineral concession by incurring or funding a minimum of US\$1,000,000 in exploration expenditures in stages over three years and issuing 500,000 shares to the Company in stages over two years. In order for Klondike to earn an undivided interest in all six mineral concessions, Klondike must incur or fund minimum exploration expenditures totaling in the aggregate \$6,000,000 (US\$1,000,000 on each mineral concession) and issue to the Company an aggregate of 3,000,000 shares (500,000 shares per mineral concession).

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6 Mineral Properties (continued):

On August 18, 2008, Klondike received regulatory approval and issued the Company 1,800,000 common shares being the initial commitment of 300,000 common shares per each optioned property. During the three months ended March 31, 2009, the Company received notice of termination on all but the Espiritu option agreement from Klondike.

The Company continues to advance the remaining properties from the Staking activities originally funded by Klondike.

Details of Mineral Properties - 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 has expended a total of \$216,713 since acquisition.

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.

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7 Share Capital:

Authorized:

Unlimited common shares without par value

Unlimited preferred shares

Issued and Fully Paid:

	Number of Shares		Share Capital		Contributed Surplus
Balance, December 31, 2006	14,200,300	\$	2,892,006	\$	639,197
For cash:					
Private placement, net of issuance cost of \$90,317	5,298,925		761,361		3,238,440
Exercise of warrants	914,500		713,978		(220,427)
Exercise of stock options	100,000		122,740		(51,740)
Acquisition of mineral properties	750,000		805,000		-
Future income tax effect on renunciation of flow- through share expenditures	-		(153,881)		-
Share issuance costs	-		(206,683)		-
Stock-based compensation	-		-		408,927
Balance, December 31, 2007	21,263,725	\$	4,934,521	\$	4,014,397
For cash:					
Private placement, net of issuance cost of \$2,428,145	11,401,200		11,583,878		8,069,626
Exercise of warrants	3,410,925		5,316,975		(2,367,735)
Exercise of stock options	63,750		83,685		(35,560)
Acquisition of mineral properties	725,000		1,339,750		-
Stock-based compensation	-		-		1,164,423
Balance, December 31, 2008	36,864,600	\$	23,258,809	\$	10,845,151
For cash:					
Refund of share issuance costs	-		3,824		-
Acquisition of mineral properties	50,000		37,500		-
Stock-based compensation					227,673
Balance, March 31, 2009	36,914,600	\$	23,300,133	\$	11,072,824

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7 Share Capital (continued):

2008 Private Placements

On February 29, 2008, the Company issued 5,500,000 units at \$1.50 per unit for total gross proceeds of \$8,250,000. Each unit consisted of one common share and one-half share purchase warrant. One whole warrant is exercisable into an additional common share for \$1.80 expiring August 29, 2009. The Company paid a finder's fee of \$369,285 in cash, 94,500 finder's units and 340,690 share purchase warrants. Each warrant is exercisable into one common share at \$1.70 per share expiring on August 29, 2009.

On June 19, 2008, the Company issued 5,648,000 units at \$2.20 per unit, by way of brokered private placement for total gross proceeds of \$12,425,600. Each unit consisted of one common share of the Company and one-half of one transferable common share purchase warrant. Each whole Warrant will entitles the holder to acquire, at any time within 24 months from the date of closing of the Private Placement, one additional common share of the Company at an exercise price of \$2.75 per share. A total of 2,824,000 Warrants were issued to investors under the Private Placement. A commission equal to 6.5% of the gross proceeds of the Private Placement, consisting of \$458,524 paid in cash and 158,700 units (the "Agent's Units"), having the same terms as the Units sold under the Private Placement, except that the common share purchase warrants comprising part of the Agent's Units are non-transferable. The Agent also received 367,120 options (the "Agent's Options"), equal to 6.5% of the number of Units sold under the Private Placement. Each Agent's Option is exercisable at any time up to 24 months following the Closing to acquire one common share of the Company at an exercise price of \$2.50 per share.

2007 Private Placements

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, for gross proceeds of \$2,000,001. The warrant entitles the holder to acquire one common share at a price of \$0.80 per share for a period of eighteen months from the date the warrant is issued. The warrants were valued at \$2,324,309. Issuance costs of \$90,317 were netted against the proceeds.

On October 23, 2007, the Company completed a private placement of 2,222,000 units at a price of \$0.90 per unit consisting of one common share and one common share purchase warrant, for gross proceeds of \$1,999,800. Each warrant entitles the holder to purchase one common share at a price of \$1.25 per share for a period of eighteen months from the date of issuance of the warrant. Subsequent to four months from closing, the Company has a right upon 30 days notice to holders, to accelerate conversion of warrants by warrant holders if the share price of the Company remains equal to or greater than \$2.25 per common share for a period of twenty consecutive trading days. The warrants were valued at \$914,131. Issuance costs of \$89,106 were netted against the proceeds.

In February 2007, the Company renounced \$451,000 of flow-through share expenditures to investors for Canadian Income Tax purposes. As a result, \$153,881 has been charged to share capital to reflect the future income tax effect of the renouncement.

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8 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, 2006	793,500	0.50	1,425,000	0.746
Granted	5,298,925	0.99	625,000	0.914
Exercised	(914,500)	0.54	(100,000)	0.710
Expired/Cancelled	-	-	-	-
Outstanding, December 31, 2007	5,177,925	1.18	1,950,000	0.802
Granted	6,408,410	2.25	890,000	1.950
Exercised	(3,410,925)	0.90	(63,750)	0.738
Expired/Cancelled	(35,000)	0.80	-	-
Outstanding, December 31, 2008 and March 31, 2009	8,140,410	\$ 2.05	2,776,250	\$ 1.171

Warrants

As at March 31, 2009, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,732,000	1.25	April 22, 2009
2,797,250	1.80	August 29, 2009
340,690	1.70	August 29, 2009
2,903,350	2.75	June 19, 2010
367,120	2.50	June 19, 2010
8,140,410		

The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in contributed surplus until exercised, at which time they are transferred into share capital.

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8 Options and Warrants (continued):

The following assumptions were used for the Black-Scholes valuation of warrants issued during 2008:

	2008
Risk-free interest rate	3.10% - 3.35%
Expected life of warrants	18 – 24 months
Fair value per warrant issued	\$1.12 - \$1.44
Annualized volatility	95% - 105%
Dividend rate	0.00%

Options

The Company has adopted an incentive stock option plan under the rules of the TSX Venture Exchange ("TSXV") pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 5 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. Pursuant to the policies of the TSX Venture Exchange, shares issued on exercise of options are restricted from trading during the four month period subsequent to the date of grant.

As at March 31, 2009, the Company had outstanding stock options enabling holders to acquire common share of the Company as follows:

	Number of Shares	Exercise Price	Expiry Date
	875,000	\$ 0.71	April 12, 2011
	400,000	0.84	December 5, 2011
	436,250	0.90	September 18, 2011
	175,000	0.95	October 23, 2011
	890,000	1.95	March 31, 2013
	2,776,250		

For stock options granted to employees, officers, directors and consultants, the Company recognizes stock-based compensation expense based on the estimated fair value of the stock options granted as calculated using the Black-Scholes option-pricing model on the date of the grant.

The following assumptions were used for the Black-Scholes valuation of stock options granted during 2008:

	2008
Risk-free interest rate	2.67%
Expected life of options	5 years
Fair value per option granted	\$1.60
Annualized volatility	108.7%
Dividend rate	0.00%

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8 Options and Warrants (continued):

Stock-based compensation totalling \$227,673 (2008 - \$62,971) was expensed during the year. As at March 31, 2009, 2,287,500 options with a weighted average exercised price of \$1.03 per option were vested and exercisable.

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.

9 Income Taxes:

Estimated taxable income 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 December 31, 2008, the Company had non-capital losses of approximately \$3,308,230 (2007 - \$1,748,204) 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:

2009	\$ 2,646
2009	26,700
2010	78,801
2014	167,304
2015	287,469
2026	481,860
2027	724,842
2028	1,538,608
	<u>\$ 3,308,230</u>

10 Supplemental Disclosure of Cash and Non-Cash Activities:

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

	2009	2008
Issuance of share capital for acquisition of mineral property interests	<u>37,500</u>	386,000

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11 Related Party Transactions and Balances:

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

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.

	2009	2008
Management fees charged by a company controlled by a director and officers	\$ 109,750	\$ 41,250
Rent and administration fees received from a company controlled by common directors	(19,734)	3,000
Consulting, administrative and management fees charged by a company controlled by common directors	74,650	-
Consulting and management fees charged by a director and officer	-	24,000

The Company has entered into a consulting agreement with Makwa Exploration Ltd. for the services of James McDonald to act as the Company's President and CEO, and with Manly Capital Corp. for the services of Kenneth Berry to act as the Company's Chairman. The consulting agreement is effective as of January 1, 2008 and expires on December 31, 2009 and will unless otherwise terminated extend for an additional 24 months.

Effective September 1, 2008, the Company entered into a administrative services agreement with Touchstone Capital Corp. a private company owned by two directors of the Company. Touchstone provides services to the Company including assisting in professional analysis and planning of exploration programs, promotional materials; providing access to secretarial services and providing such other additional instructions and directions as the Company may require. For the three months ended March 31, 2009, the Company incurred expenses of \$74,650 under the administrative services contract. The agreement is effective as of September 1, 2008 and expires on August 31, 2010 and will unless otherwise terminated extend on an annual basis.

Included in accounts receivable as at December 31, 2008, is US\$340,913 receivable from company's controlled by a common director. The amounts are related to exploration costs incurred by the Company on behalf of projects were a earn-in option agreement exists.

In addition to the above:

- a) Included in marketable securities as at March 31, 2009 is \$149,500 (2008-\$151,000) are market value of shares received from a company with a director in common.
- b) Included in mineral properties as at March 31, 2009 is \$2,760,134 (2008-\$1,871,099) which are funds received as recoveries from joint venture partners whose companies are controlled by common directors.

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12 Contingent Liabilities:

The Company's mineral properties are affected by the laws and regulations concerning environmental protection that exist in the various jurisdictions. It is not possible to estimate the future impact on operating results, if any, as a result of, future changes in regulations or developments.

13 Segmented Information:

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

The Company's mineral properties and deferred costs by geographic location are as follows:

	2009	2008
Mineral properties:		
Canada	\$ 2,823,375	\$ 1,298,028
USA	281,815	270,036
Mexico	10,028,558	3,972,598
	<u>\$ 13,133,748</u>	<u>\$ 5,540,662</u>

14 Commitments:

During the year, the company entered into a contract for office rent which expires July 2012. The following table summarizes the company's total annual obligations under this agreement:

2009	\$ 36,330
2010	49,497
2011	50,554
2012	25,277
	<u>\$ 161,658</u>

See Note 11 for commitments with related parties.

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15 Financial instruments and financial risk management:

The Company's financial instruments include cash, accounts receivable, share subscriptions receivable, exploration deposits 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.

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

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

(a) Credit risk:

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

(b) Liquidity risk:

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

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through private equity placements. The Company anticipates it will have adequate liquidity to fund its financial liabilities through future equity contributions.

As at March 31, 2009, the Company's financial liabilities were comprised of accounts payable accrued liabilities and investor deposits 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, the United States dollar and the Mexican Peso. The Company's transactions are denominated in Canadian dollars, United States dollars and the Mexican Peso, the Company has not entered into any arrangements to hedge currency risk but does maintain cash balances within each currency with a predominate balance held in Canadian Dollars. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

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15 Financial instruments and financial risk management (continued):

(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. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time.

(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 year end would not have a material impact on the Company's financial statements.

16. Capital management:

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

The Company considers its capital structure to include 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 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 three months ended March 31, 2009.

17 Comparative Figures:

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

18 Subsequent Event:

On April 7, 2009, the Company announced the extension of the expiration date of 1,732,000 unexercised share purchase warrants which were originally set to expire on April 22, 2009 by one year to April 22, 2010 and remain exercisable at a price of \$1.25. All other terms of the share purchase warrants remain unchanged.