



**Vancouver, BC**

**CONSOLIDATED FINANCIAL STATEMENTS**

**for the three and six months ended**

**June 30, 2008**

**and**

**June 30, 2007**

# Notice to Shareholders

## **Responsibility for Financial Statements**

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

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

## **Auditor involvement**

The independent auditor of Kootenay Gold Inc. has not performed a review of the unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 and June 30, 2007.

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

Exhibit 1

	June 30 2008	December 31 2007	June 30 2007
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 19,037,435	\$ 1,566,191	\$ 1,193,838
Accounts receivable and advances	1,039,568	193,060	76,743
Share subscriptions receivable	-	35,500	-
Prepaid expenses	208,458	107,756	16,817
Marketable securities (Note 4)	203,000	365,750	165,500
<b>Total current assets</b>	<b>20,488,461</b>	<b>2,268,257</b>	<b>1,452,898</b>
<b>Equipment</b> (Note 5)	<b>74,075</b>	<b>48,494</b>	<b>34,286</b>
<b>Exploration advances</b>	<b>26,379</b>	<b>74,921</b>	<b>98,138</b>
<b>Exploration deposits</b>	<b>36,644</b>	<b>36,644</b>	<b>-</b>
<b>Mineral properties</b> (Note 6)	<b>8,175,955</b>	<b>4,776,655</b>	<b>2,667,284</b>
	<b>\$ 28,801,514</b>	<b>\$ 7,204,971</b>	<b>\$ 4,252,606</b>

**LIABILITIES**

<b>Current</b>			
Accounts payable and accrued liabilities	\$ 672,191	\$ 472,244	\$ 107,941
Investor deposits	37,500	96,700	-
Exploration advances	-	249,450	-
<b>Total current liabilities</b>	<b>709,691</b>	<b>818,394</b>	<b>107,941</b>

**SHAREHOLDERS' EQUITY**

<b>Share capital</b> (Note 7)	19,234,129	4,934,521	4,516,408
<b>Contributed surplus</b> (Note 7)	12,813,403	4,014,397	1,535,749
<b>Accumulated other comprehensive income (loss)</b> (Exhibit 3)	(120,750)	47,000	-
<b>Deficit</b>	(3,834,959)	(2,609,341)	(1,907,492)
	<b>28,091,823</b>	<b>6,386,577</b>	<b>4,144,665</b>
	<b>\$ 28,801,514</b>	<b>\$ 7,204,971</b>	<b>\$ 4,252,606</b>

**Continued Operations and Going Concern** (Note 2)  
**Subsequent Events** (Note 14)

Approved on Behalf of the Board:

"Kenneth Berry"  
Director

"James McDonald"  
Director

- see accompanying notes -

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended		For the six months ended	
	June 30 2008	June 30 2007	June 30 2008	June 30 2007
				Exhibit 2
<b>Administrative Expenses</b>				
Amortization	\$ 2,870	\$ 2,733	\$ 5,633	\$ 5,565
Foreign exchange loss	49,666	24,006	99,394	24,006
General and administrative	179,429	141,320	302,591	205,988
Management fees	62,850	66,700	109,150	108,598
Stock-based compensation (Note 8)	666,408	-	729,379	-
Professional fees	55,855	57,278	71,662	133,040
Regulatory and filing fees	7,779	5,816	61,120	36,611
Rent	12,082	5,518	24,050	7,018
<b>Loss before Other Items</b>	<b>1,036,939</b>	<b>303,371</b>	<b>1,402,979</b>	<b>520,826</b>
<b>Other Items</b>				
Administration income	29,516	7,892	111,979	8,263
Interest income	50,396	9,835	65,382	9,851
	<b>79,912</b>	<b>17,727</b>	<b>177,361</b>	<b>18,114</b>
<b>Loss before income taxes</b>	<b>957,027</b>	<b>285,644</b>	<b>1,225,618</b>	<b>502,712</b>
<b>Income tax recovery</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,881</b>
<b>Loss for the Period</b>	<b>957,027</b>	<b>285,644</b>	<b>1,225,618</b>	<b>348,831</b>
<b>Deficit, Beginning</b>	<b>2,877,932</b>	<b>1,621,848</b>	<b>2,609,341</b>	<b>1,558,661</b>
<b>Deficit, Ending</b>	<b>\$ 3,834,959</b>	<b>\$ 1,907,492</b>	<b>\$ 3,834,959</b>	<b>\$ 1,907,492</b>
<b>Basic and Diluted Earnings (Loss) per Share</b>	<b>\$ (0.031)</b>	<b>\$ (0.015)</b>	<b>\$ (0.047)</b>	<b>\$ (0.019)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>30,550,266</b>	<b>13,205,300</b>	<b>25,906,996</b>	<b>17,972,459</b>

- 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		For the six months ended	
	June 30 2008	June 30 2007	June 30 2008	June 30 2007
<b>Accumulated other comprehensive income, beginning of period</b>	\$ (95,750)	\$ -	\$ 47,000	\$ -
Other comprehensive loss	(25,000)	-	(167,750)	-
<b>Accumulated other comprehensive loss, end of period</b>	\$ (120,750)	\$ -	\$ (120,750)	\$ -

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 4

	For the three months ended		For the six months ended	
	June 30 2008	June 30 2007	June 30 2008	June 30 2007
<b>Net loss</b>	\$ (957,027)	\$ (285,644)	\$ (1,225,618)	\$ (348,831)
Other comprehensive income				
Unrealized loss on available-for-sale financial assets arising during the period	(25,000)	-	(167,750)	-
Total other comprehensive loss	(25,000)	-	(167,750)	-
<b>Comprehensive loss</b>	\$ (982,027)	\$ (285,644)	\$ (1,393,368)	\$ (348,831)

- see accompanying notes -

# KOOTENAY GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Exhibit 5

	For the three months ended		For the six months ended	
	June 30 2008	June 30 2007	June 30 2008	June 30 2007
<b>Cash Flows from Operating Activities</b>				
Net loss for the period	\$ (957,027)	\$ (285,644)	\$ (1,225,618)	\$ (348,831)
Add items not involving any outlay of cash:				
Stock-based compensation	666,408	-	729,379	-
Amortization	2,870	2,733	5,633	5,565
	(287,749)	(282,911)	(490,606)	(343,266)
Changes in non-cash working capital balances:				
Accounts receivable and advances	(198,051)	(23,249)	(846,508)	18,659
Prepaid expenses	(28,832)	(16,817)	(100,702)	(14,705)
Exploration advances received	-	-	(249,450)	(250,000)
Accounts payable and accrued liabilities	321,197	(455,114)	199,947	(25,439)
	\$ (193,435)	\$ (778,091)	\$ (1,487,319)	\$ (614,751)
<b>Cash Flows from Financing Activities</b>				
Investor deposits	\$ -	\$ -	\$ (23,700)	\$ (989,690)
Issuance of share capital	12,441,887	48,500	21,390,735	2,520,954
	\$ 12,441,887	\$ 48,500	\$ 21,367,035	\$ 1,531,264
<b>Cash Flows from Investing Activities</b>				
Increase in marketable securities	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)
Investment in equipment	\$ (1,430)	\$ (2,656)	\$ (31,214)	\$ (4,175)
Investment in mineral properties	(1,656,793)	(589,690)	(2,420,800)	(1,391,432)
Exploration advances paid	48,542	(98,138)	48,542	(98,138)
	\$ (1,614,681)	\$ (695,484)	\$ (2,408,472)	\$ (1,498,745)
<b>Increase (Decrease) in Cash and Cash Equivalents During the Period</b>	<b>10,633,771</b>	<b>(1,425,075)</b>	<b>17,471,244</b>	<b>(582,232)</b>
<b>Cash and Cash Equivalents, Beginning of the Period</b>	<b>8,403,664</b>	<b>2,613,913</b>	<b>1,566,191</b>	<b>1,771,070</b>
<b>Cash and Cash Equivalents, End of the Period</b>	<b>\$ 19,037,435</b>	<b>\$ 1,188,838</b>	<b>\$ 19,037,435</b>	<b>\$ 1,188,838</b>

Supplemental Disclosure of Cash and Non-Cash Activities (Note 9)

- see accompanying notes -

**KOOTENAY GOLD INC.**  
(An Exploration Stage Company)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008 and June 30, 2007**

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**1 Nature of Operations and Going Concern:**

Kootenay Gold Inc. (the "Company") was established as a Capital Pool Company 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 represented the Company's "Qualifying Transaction" pursuant to the policies of the Exchange as they relate to 'Capital Pool Corporations'. Effective March 7, 2005, the Company 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 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 six months ended June 30, 2008 and 2007, 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.

	Accumulated to six months ended	
	<b>June 30</b>	June 30
	<b>2008</b>	2007
Deficit	\$ <b>3,834,959</b>	\$ 1,907,492
Working capital	\$ <b>19,778,770</b>	\$ 1,449,863

**3 Significant Accounting Policies:**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The significant accounting policies adopted by the Company are as follows:

**Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kootenay Resources Inc. (formerly Kootenay Gold Corp), Minera JM S.A. de C.V. (a company incorporated in Mexico) and Kootenay Gold (US) Corp. All significant inter-company transactions have been eliminated upon consolidation.

**Use of estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. The most significant estimates

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

made by management relate to amounts recorded for the depreciation of capital assets, measurement of stock-based compensation, and the recoverability of mineral properties. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from those estimates.

**Foreign currency translation**

The Company's foreign subsidiary is considered an integrated foreign operation and is translated using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statements of operations.

**Cash and cash equivalents**

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

**Marketable securities**

Marketable securities are recorded at market value by reference to published price quotations in an active market, and are written down when the value is impaired on an other-than-temporary basis, or when no other means exist to independently confirm the recorded value is reasonable. Realized gains or losses on the sale of securities are determined based on specific cost basis.

**Mineral property interests**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. The recoverability of mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permits necessary to complete the development and future profitable production, or proceeds from the disposition thereof.

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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Stock-based compensation**

In connection with incentive stock options granted by the Company to its officers, directors, employees and consultants, an expense is recognized over the vesting period based on the estimated fair value of the options on the date of the grant as determined using the Black -Scholes option pricing model. The expense is charged to stock-based compensation and the offset is credited to contributed surplus. Cash received on exercise of incentive stock options is credited to the then issued and outstanding capital stock of the Company.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recognized using the declining balance method at the following annual rates:

Computer equipment	30%
Computer software	100%
Vehicles	30%

For the year of acquisition, the rate is one-half of the above.

**Asset retirement obligation**

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred or when a reasonable estimate of fair value can be made. The fair value of an asset retirement obligation is recorded as a liability and a corresponding increase in mineral properties. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. Actual costs incurred upon settlement are charged against the asset retirement obligation. Any difference between the actual costs and the recorded liability is recognized as a gain or loss in earnings in the period in which the settlement occurs. At present, estimated future site restoration costs for the Company's mineral property interests are considered minimal.

**Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced to the investors, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

**Share capital**

The Company records proceeds from share issuances net of share issuance costs. Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the shares are issued.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008 and June 30, 2007**

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

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive. Basic loss per common share is calculated using the weighted-average number of shares outstanding during the period.

**Income taxes**

Income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Financial instruments – Recognition and Measurement – Section 3855**

This section establishes standards for the recognition, measurement disclosure and presentation of financial instruments. Under the new standard, financial assets and liabilities are initially recognized at fair value and are subsequently measured based on their classification as held-for-trading, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities, as described below:

**(i) Held-for-trading**

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. These instruments are measured at fair value with subsequent changes in fair value included in earnings.

The Company has classified cash and cash equivalents as held-for-trading, which accordingly are carried at their fair values. Held-for-trading assets are not subject to significant credit, foreign exchange or interest rate risk.

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**June 30, 2008 and June 30, 2007**

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**(ii) Held-to-maturity**

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held-to-maturity financial assets are included in earnings.

Currently, the Company has no held-to-maturity financial assets.

**(iii) Loans and receivables**

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings.

The Company has classified receivables, subscriptions receivable, exploration deposits and exploration advances as loans and receivables, which are accordingly measured at amortized cost. Due to their short-term natures, the fair values of loans and receivables approximate their carrying values, and they are not subject to significant credit or interest rate risk.

**(iv) Available-for-sale**

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale securities are written down to fair value through earnings whenever it is necessary to reflect other-than-temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in earnings.

The Company has classified marketable securities as available-for-sale which is accordingly carried at their fair values.

Available-for-sale assets are not subject to significant credit, foreign exchange or interest rate risk

**(v) Other financial liabilities**

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are included in earnings.

The Company has classified exploration funds received in advance and accounts payable and accrued liabilities as other financial instruments, which are accordingly carried at amortized cost. Due to their short-term natures, the fair values of other financial liabilities approximate their carrying values, and they are not subject to significant credit, foreign exchange or interest rate risk.

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**Financial instruments – Disclosure and Presentation – Section 3861**

This section establishes standards for presentation of financial instruments and identifies the information which should be disclosed about them. Under the new standards, policies followed for years prior to the effective date are generally not reversed, and therefore the comparative figures have not been restated.

**Comprehensive income – Section 1530**

This section establishes standards for reporting and presentation of comprehensive income, which is comprised of net earnings or loss and other comprehensive income. Other comprehensive income represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments, and changes in the fair market value of derivative instruments designated as cash flow hedges. Amounts included in other comprehensive income are shown net of tax. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented (if applicable) as a new category in shareholders' equity.

**Risk management**

Because the financial instruments are not subject to significant credit, foreign exchange or interest rate risk, the Company has not adopted risk management policies.

**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 June 30, 2008 is \$203,000 (2007 – \$365,750), resulting in other comprehensive loss of \$189,750 (2007 - \$Nil).

**5 Equipment:**

		<b>Cost</b>		<b>Accumulated Amortization</b>		<b>2008 Net</b>		<b>2007 Net</b>
Vehicles	\$	58,117	\$	16,161	\$	41,956	\$	23,520
Computer		41,701		9,582		32,119		10,766
	\$	99,818	\$	25,743	\$	74,075	\$	34,286

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and June 30, 2007

### 6 Mineral Properties:

	Canada Total	Promontorio	Santa Lucia*	Sonora Anomalies	Other	Mexico Total	United States	2008 Total	2007 Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition Costs</b>									
Balance, beginning	341,399	967,326	55,724	29,823	52,103	1,104,976	65,102	1,511,477	262,717
Incurred	788	1,118,997	-	446,200	-	1,565,197	-	1,565,985	434,341
Balance, ending	342,187	2,086,323	55,724	476,023	52,103	2,670,173	65,102	3,077,462	689,559
<b>Exploration Expenditures</b>									
Balance, beginning	1,715,603	1,247,443	331,065	1,094,530	33,899	2,706,937	204,326	4,626,865	1,013,135
Assaying and Lab	48,388	314,260	1,304	28,744	-	344,308	999	393,695	22,310
Camp Costs	18	113,754	-	221,274	-	335,028	878	335,924	-
Drafting	3,720	-	-	-	-	-	-	3,720	30,607
Drilling	92,309	920,463	-	-	-	920,463	-	1,012,772	-
Geological mapping	80,382	57,439	18,347	21,862	-	97,648	-	178,030	145,486
Geophysics	80,078	187,252	2,607	-	-	189,859	(90)	269,847	660,606
Maintenance	39,991	92,587	10,838	234,451	331	338,207	-	378,198	11,836
Miscellaneous	105,974	3,741	-	1,244	-	4,985	-	110,959	218,121
Prospecting	41,159	52,664	150	66,391	-	119,205	-	160,364	199,804
Rock Sampling	18,684	18,020	6,780	-	4,060	28,860	-	47,544	53,284
Incurred	510,703	1,760,180	40,026	573,966	4,391	2,378,563	1,787	2,891,053	1,342,055
Balance, ending	2,226,306	3,007,623	371,091	1,668,496	38,290	5,085,500	206,113	7,517,918	2,355,190
Total property balance	2,568,493	5,093,946	426,815	2,144,519	90,393	7,755,673	271,215	10,595,380	3,044,749
Recovery of costs	(913,384)	-	(458,690)	(1,047,351)	-	(1,506,041)	-	(2,419,425)	(377,465)
Abandoned	-	-	-	-	-	-	-	-	-
Cumulative mineral property costs	1,655,109	5,093,946	(31,875)	1,097,168	90,393	6,249,631	271,215	8,175,955	2,667,284

\*Joint Venture Project

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(An Exploration Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 6 Mineral Properties (Canada):

	Alisa Lake \$	Chapleau* \$	Chenier* \$	Conner Creek* \$	CP Midas \$	Deer Creek \$	Jumping Josephine* \$	Murphy* \$	Sunrise \$	Other \$	2008 Total \$	2007 Total \$
<b>Acquisition Costs</b>												
Balance, beginning	50,000	-	50,800	24,250	50,000	42	24,250	50,000	77,500	14,557	341,399	40,533
Incurred	-	-	-	-	-	210	-	-	-	578	788	-
Balance, ending	50,000	-	50,800	24,250	50,000	252	24,250	50,000	77,500	15,135	342,187	40,533
<b>Exploration Expenditures</b>												
Balance, beginning	4,685	29,333	199,425	439,640	55,538	81,930	97,667	188,375	54,430	564,580	1,715,603	284,367
Assaying and Lab	239	12,043	-	19,243	-	2,230	-	-	-	14,633	48,388	3,454
Camp Costs	-	18	-	-	-	-	-	-	-	-	18	-
Drafting	-	-	-	-	-	-	-	-	-	3,720	3,720	1,294
Drilling	-	-	-	3,315	-	-	88,994	-	-	-	92,309	-
Geological mapping	984	52,776	-	4,013	-	2,190	-	1,174	325	18,920	80,382	18,280
Geophysics	-	666	-	441	-	550	-	-	-	78,421	80,078	85,905
Maintenance	1,372	-	-	1,650	445	1,200	114	-	-	35,210	39,991	15,690
Miscellaneous	-	281	-	-	-	-	104,043	1,650	-	-	105,974	-
Prospecting	-	-	550	-	-	825	-	-	-	39,784	41,159	55,192
Rock Sampling	-	-	-	1,388	424	2,667	-	2,618	-	11,587	18,684	400
Incurred	2,595	65,784	550	30,050	869	9,662	193,151	5,442	325	202,275	510,703	180,215
Balance, ending	7,280	95,117	199,975	469,690	56,407	91,592	290,818	193,817	54,755	766,855	2,226,306	464,582
Total property balance	57,820	95,117	250,775	493,940	106,407	91,844	315,068	243,817	132,255	781,990	2,568,493	505,115
Recovery of costs	-	-	(238,336)	(457,484)	-	-	(52,200)	(165,364)	-	-	(913,384)	(30,000)
Abandoned	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative mineral property costs	57,280	95,117	12,439	36,456	106,407	91,844	262,868	78,453	132,255	781,990	1,655,109	475,115

\*Joint Venture Project

**KOOTENAY GOLD INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008 and June 30, 2007**

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**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 expended \$30,050 on the property for the period ended June 30, 2008 (2007 - \$31,329). 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 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. The option calls for Amador to expend \$1,000,000 in exploration and issue 400,000 shares to the Company over 4 years. If commercial production is reached, an additional 250,000 shares of Amador are payable to the Company. The Company received accumulative reimbursements in the amount of \$457,484 for costs incurred up to the period ended June 30, 2008 (2007 - \$35,003).

**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. The Company and Astral are now concluding a joint venture agreement with Astral having earned its 60% interest.

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**June 30, 2008 and June 30, 2007**

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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 \$65,784 exploration during the period ended June 30, 2008 (2007 - \$5,848).

**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 prolific Rossland-Republic trend and one (Alisa Lake) is in the Sullivan District in south eastern British Columbia.

The agreement requires issuance of 25,000 shares per property on 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 \$9,781 (Sunrise \$325; Chenier \$550; Murphy \$5,442; Midas \$869; and Alisa \$2,595) on the properties during the period ended June 30, 2008 (2007 - \$181,191). The Company issued 150,000 shares valued at \$1.10 and 125,000 shares valued at \$0.90 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. In order to exercise its option, Astral must issue 500,000 common shares to the Company and incur an aggregate of \$2,500,000 in expenditures for each mineral property on or before May 4, 2011. The Company received accumulative reimbursements in the amount of \$238,336 for costs incurred up to the period ended June 30, 2008 (2007 - \$92,601).

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

On March 28, 2008, the Company announced an option agreement on the Murphy Property with Abitibi Mining Corp (“Abitibi”). Abitibi will have the option to acquire a 60% interest in the Murphy Property by issuing to the Company 400,000 Abitibi common shares over three years, with an additional 250,000 shares to be issued upon commencement of production. Abitibi must also expend an aggregate of \$2,000,000 in exploration expenditures on the Murphy property over a four year period. The Company received accumulative reimbursements in the amount of \$165,364 for costs incurred up to the period ended June 30, 2008 (2007 - \$nil).

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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and June 30, 2007

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### 6 Mineral Properties (continued):

#### Details of Mineral Properties - Mexico

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

On August 20, 2005, the Company acquired one mineral claim covering 713 hectares in the southern Sonora State region located between Navajoa and Alamos, Mexico. The Company expended \$Nil on exploration during the period ended June 30, 2008 (2007 – \$nil).

##### **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 \$1,760,180 on exploration to the period ended June 30, 2008 (2007 - \$233,708).

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 valued at \$1.93 per share; 50,000 shares valued at \$1.70 per share and 150,000 shares valued at \$1.95 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.

##### **Santa Lucia** - Southern Sonora State, Mexico

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

In order to exercise its option the Company must issue 100,000 shares of the Company to the vendor. The Company expended \$40,026 on exploration during the period ended June 30, 2008 (2007 - \$170,687). The Company under a grubstaking agreement dated June 15, 2005 issued a total of 50,000 shares, with two tranches of 25,000 shares valued at \$0.74 and \$1.00 per share respectively pursuant to this agreement.

The Company entered into a letter agreement dated June 6, 2006 with Klondike Silver Corp. ("Klondike"), whereby the Company will grant to Klondike the right to earn up to a 50% interest in the Santa Lucia property located in Sonora State, Mexico. In order to earn their interest, Klondike must spend \$1,000,000 U.S. in

exploration on the property; pay \$25,000 U.S. in cash and issue to the Company 500,000 common shares in its

# KOOTENAY GOLD INC.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and June 30, 2007

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### 6 Mineral Properties (continued):

capital by June 14, 2009. The Company received 300,000 shares of Klondike pursuant to this agreement. The Company received accumulative reimbursements in the amount of \$458,690 for costs incurred up to the period ended June 30, 2008 (2007 - \$234,818).

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.

#### **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. The Company expended \$573,966 on exploration during the period ended June 30, 2008 (2007 - \$94,932). The Company received accumulative reimbursements in the amount of \$1,047,351 for costs incurred up to the period ended June 30, 2008 (2007 - \$282,624).

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 (Los Chinos). 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). 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.

#### **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 \$206,113 since acquisition.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Title to Mineral Property Interests**

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

**7 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, 2005	9,851,800	\$	1,247,031	\$	8,260
For cash:					
Exercise of stock options	280,000		49,000		-
Private placements	793,500		357,075		-
Exercise of warrants	3,200,000		1,312,000		129,099
Acquisition of mineral properties	75,000		56,000		-
Share issuance costs	-		(129,100)		-
Stock-based compensation	-		-		501,838
<b>Balance, December 31, 2006</b>	<b>14,200,300</b>	<b>\$</b>	<b>2,892,006</b>	<b>\$</b>	<b>639,197</b>
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
<b>Balance, December 31, 2007</b>	<b>21,263,725</b>	<b>\$</b>	<b>4,934,521</b>	<b>\$</b>	<b>4,014,397</b>
For cash:					
Private placement, net of issuance cost of \$926,674	11,401,200		11,236,443		9,224,212
Exercise of warrants	1,495,000		2,009,202		(398,769)
Exercise of stock options	63,750		75,463		(26,437)
Acquisition of mineral properties	500,000		978,500		-
<b>Balance, June 30, 2008</b>	<b>34,723,675</b>	<b>\$</b>	<b>19,234,129</b>	<b>\$</b>	<b>12,813,403</b>

**KOOTENAY GOLD INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008 and June 30, 2007**

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**7 Share Capital (continued):**

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.

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.

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**June 30, 2008 and June 30, 2007**

**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
<b>Outstanding, December 31, 2006</b>	<b>793,500</b>	<b>0.50</b>	<b>1,425,000</b>	<b>0.746</b>
Granted	5,298,925	0.99	625,000	0.914
Exercised	(914,500)	0.54	(100,000)	0.710
Expired/Cancelled	-	-	-	-
<b>Outstanding, December 31, 2007</b>	<b>5,177,925</b>	<b>1.18</b>	<b>1,950,000</b>	<b>0.802</b>
Granted	6,361,160	2.28	890,000	1.950
Exercised	(1,495,000)	1.03	(63,750)	0.738
Expired/Cancelled	-	-	-	-
<b>Outstanding, June 30, 2008</b>	<b>10,044,085</b>	<b>\$ 1.81</b>	<b>2,776,250</b>	<b>\$ 1.171</b>

**Warrants**

As at June 30, 2008, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,950,925	0.80	July 15, 2008
1,732,000	1.25	April 22, 2009
2,750,000	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
<b>10,044,085</b>		

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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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008 and June 30, 2007**

**8 Options and Warrants (continued):**

The following assumptions were used for the Black-Scholes valuation of warrants issued during 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Risk-free interest rate	<b>3.10% - 3.35%</b>	4.20% - 4.33%
Expected life of warrants	<b>18 – 24 months</b>	1.5 years
Fair value per warrant issued	<b>\$1.12 - \$1.44</b>	\$0.41 - \$0.75
Annualized volatility	<b>95% - 105%</b>	80% - 98%
Dividend rate	<b>0.00%</b>	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 June 30, 2008, 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
	<b>2,776,250</b>		

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 and 2007:

	<b>2008</b>	<b>2007</b>
Risk-free interest rate	<b>2.67%</b>	4.22 % - 4.23 %
Expected life of options	<b>5 years</b>	5 years
Fair value per option granted	<b>\$1.57</b>	\$0.72 - \$0.80
Annualized volatility	<b>104.9%</b>	109.9% - 111.07%
Dividend rate	<b>0.00%</b>	0.00%

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**June 30, 2008 and June 30, 2007**

**8 Options and Warrants (continued):**

During the six months ended June 30, 2008, the Company granted 890,000 (2007 – nil) stock options with a weighted average fair value of \$1.57 per option (2007 - \$nil). Stock-based compensation totalling \$729,379 (2007 - \$nil) was expensed during the period.

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

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

	2008	2007
Issuance of share capital for acquisition of mineral property interests	\$ <b>978,500</b>	\$ 287,400

**10 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.

	2008	2007
Management fees charged by a company controlled by officers	\$ <b>96,499</b>	\$ 73,108
Consulting and management fees charged by a company controlled by common directors	-	12,500
Consulting and management fees charged by a Director	<b>62,000</b>	48,000

**11 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.

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**12 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:

	2008	2007
Mineral properties:		
Canada	\$ 1,655,109	\$ 989,836
USA	271,215	226,510
Mexico	6,249,631	1,450,938
	<u>\$ 8,175,955</u>	<u>\$ 2,667,284</u>

**13 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:

2008	\$ 23,692
2009	47,384
2010	48,440
2011	49,497
2012	24,748
	<u>193,761</u>

**14 Subsequent Events:**

On or before July 15, 2008, 1,915,925 share purchase warrants which would have expired on July 15, 2008, were exercised by warrant holders, to raise gross proceeds of \$1,532,740. The remaining unexercised share purchase warrants totaling 35,000 expired on that date.

On August 18, 2008, Klondike Silver Corp. received regulatory approval for the six option agreements related to the Sonora claims as reported in the Company's news release dated March 31, 2008. Pursuant to the agreement, the Company as received the first tranche of shares from Klondike totaling 1,800,000 shares, 300,000 per each claim optioned.

**15 Comparative Figures:**

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