

Kootenay Zinc Corp.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the periods ended May 31, 2018 and 2017

Unaudited – Prepared by Management

Expressed in Canadian Dollars

NOTICE TO READER

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

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of the management and have been approved by the board of directors.

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

Kootenay Zinc Corp.

Condensed Interim Statements of Financial Position

As at

(Unaudited) (Expressed in Canadian dollars)

	Notes	May 31, 2018	February 28, 2018
Assets			
Current Assets			
Cash		\$ 590,613	\$ 1,558,233
GST receivable		82,362	75,134
Prepaid expenses	5	393,072	257,614
Total Assets		\$ 1,066,047	\$ 1,890,981
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	8	\$ 295,989	\$ 341,384
Total Liabilities		295,989	341,384
Shareholders' Equity			
Share capital	6	5,707,838	5,772,838
Subscriptions receivable	6	(248,400)	(248,400)
Contributed surplus	6	659,414	659,414
Deficit		(5,348,794)	(4,634,255)
Total Shareholders' Equity		770,058	1,549,597
Total Liabilities and Shareholders' Equity		\$ 1,066,047	\$ 1,890,981

Approved and authorized by the Board on July 27, 2018

(signed) "Robert Tindall"
Robert Tindall
Chief Executive Officer and Director

(signed) "Anthony Jackson"
Anthony Jackson
Chief Financial Officer and Director

The accompanying notes are an integral part of these condensed interim financial statements.

Kootenay Zinc Corp.

Condensed Interim Statements of Comprehensive Loss

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

	Three months ended May 31, 2018	Three months ended May 31, 2017
Expenses		
Advertising and promotion	\$ 78,042	\$ 335,588
Bank charges	62	1,021
Consulting	452,414	469,313
Exploration expenditures	14,154	-
Management fees (Note 8)	70,000	15,000
Meals and entertainment	3,326	-
Office	736	5,248
Professional fees (Note 8)	15,000	21,498
Rent	57,340	11,560
Share-based compensation (Notes 6,8)	-	9,889
Transfer agent and filing fees	9,340	21,722
Travel expense	14,125	-
	(714,539)	(890,839)
Other expense		
Exchange loss	-	(490)
Net loss and comprehensive loss for the period	(714,539)	(891,329)
Loss per share – basic and diluted	\$ (0.08)	\$ (0.23)
Weighted average number of common shares outstanding	9,364,329	3,856,329

The accompanying notes are an integral part of these condensed interim financial statements.

Kootenay Zinc Corp.

Condensed Interim Statements of Changes in Shareholders' Equity

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

	Share Capital		Contributed surplus	Subscriptions receivable	Deficit	Total
	Number of shares	Amount				
Balance at February 28, 2017	3,856,329	\$ 4,055,838	\$ 882,581	\$ (2,800)	\$ (2,252,421)	\$ 2,683,198
Share-based compensation	-	-	9,889	-	-	9,889
Net loss and comprehensive loss for the period	-	-	-	-	(891,329)	(891,329)
Balance at May 31, 2017	3,856,329	\$ 4,055,838	\$ 892,470	\$ (2,800)	\$ (3,143,750)	\$ 1,801,758
Balance at February 28, 2018	9,364,329	\$ 5,772,838	\$ 659,414	\$ (248,400)	\$ (4,634,255)	\$ 1,549,597
Share issuance costs	-	(65,000)	-	-	-	(65,000)
Net loss and comprehensive loss for the period	-	-	-	-	(714,539)	(714,539)
Balance at May 31, 2018	9,364,329	\$ 5,707,838	\$ 659,414	\$ (248,400)	\$ (5,348,794)	\$ 770,058

The accompanying notes are an integral part of these condensed interim financial statements.

Kootenay Zinc Corp.

Condensed Interim Statements of Cash Flows
For the periods ended May 31, 2018 and 2017
(Unaudited) (Expressed in Canadian dollars)

	Three months ended May 31, 2018	Three months ended May 31, 2017
Operating activities		
Net loss	\$ (714,539)	\$ (891,329)
Item not involving cash:		
Share-based compensation	-	9,889
Changes in non-cash working capital items:		
GST receivable	(7,228)	(38,756)
Prepaid expenses	(135,458)	39,707
Accounts payable and accrued liabilities	(45,395)	(23,496)
Net cash used in operating activities	(902,620)	(903,985)
Investing activity		
Exploration and evaluation expenditures	-	(298,456)
Net cash used in investing activity	-	(298,456)
Financing activity		
Share issuance costs	(65,000)	-
Net cash provided by financing activity	(65,000)	-
Change in cash for the period	(967,620)	(1,202,441)
Cash, beginning of period	1,558,233	2,053,352
Cash, end of period	\$ 590,613	\$ 850,911
Supplemental Cash Flow Information		
Shares issued for share issuance costs	\$ 65,000	\$ -

The accompanying notes are an integral part of these condensed interim financial statements.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Kootenay Zinc Corp. (the “Company” or “Kootenay”) was incorporated on March 23, 2015 pursuant to the *Business Corporations Act* (British Columbia). The shares of the Company are traded on the Canadian Securities Exchange (the “Exchange”) under the symbol “ZNK”. The address of its head office is located at Suite 800 - 1199 West Hastings Street, Vancouver, British Columbia, V6E 3T5 and its registered office is at Suite 2080 - 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4.

On January 30, 2018, the Company consolidated all of its issued and outstanding share capital on the basis of one post-consolidation common share for 10 pre-consolidation common shares. At the date of consolidation, the Company had 4,864,329 common shares issued and outstanding (Note 6).

The Company is engaged in the business of mineral exploration and development in British Columbia and specifically in the exploration and advancement of the Sully Property. The Company is required to facilitate separate fundraising, exploration and development strategies to achieve its business objectives and it expects to commence these strategies as soon as practicable.

The Company is an exploration stage Company with no producing properties, and consequently has no current operating cash flow or revenues. There is no assurance that a commercially viable mineral deposit exists on any of its properties. The Sully Property is currently in the exploration stage.

These condensed interim financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company’s continuing operations, as intended, are dependent upon its ability to complete the exploration of its exploration and evaluation assets, including obtaining the necessary financing. There can be no assurance that the Company will be able to complete such activities or obtain financing to continue; therefore, a material uncertainty exists that casts significant doubt over the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). Therefore, these condensed interim financial statements comply with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

These condensed interim financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

(b) Approval of the financial statements

The financial statements of the Company were approved by the directors and authorized for issue on July 27, 2018.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

(c) Significant accounting judgments, estimates and assumptions

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position, and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

These financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates appear throughout the financial statements and may require adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other relevant factors that are believed to be reasonable under the circumstances.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows.

Critical accounting estimates

Share-based compensation

Estimating the fair value of granted stock options requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected rate of forfeiture, volatility and dividend yield, and making assumptions about them.

Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Critical accounting judgments

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Impairment of exploration and evaluation assets

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

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(Unaudited) (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

(i) Financial assets

The Company classifies its financial assets as fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or loss

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost, less any impairment.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income (loss) and classified as a component of equity.

Management assesses the carrying value of available-for-sale financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income (loss) are included in profit or loss.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

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(Unaudited) (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (Continued)

(ii) Financial liabilities

The Company classifies its financial liabilities as other financial liabilities.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

(b) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. Warrants that are issued as payment for finder fees or other transaction costs are accounted for as share-based payments and recognized as share issuance costs and contributed surplus. Proceeds and issue costs from unit placements are allocated between shares and warrants issued according to the residual method whereby proceeds are allocated first to share capital based on the market trading price of the common shares at the time the units are issued, and any excess is allocated to warrants.

In situations where share capital is issued or received as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares issued is based on the trading price of those shares on the date of issuance.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Flow-through shares/units

The Company will, from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) fair value of share capital issued, based on market price at time of issuance, and, ii) the residual as a flow-through share premium, which is recognized as a liability. On issuance of a flow-through unit, the Company allocated the flow-through unit into i) fair value of share capital issued, based on market price at time on issuance, ii) estimated fair value of a warrant, and iii) the residual as flow-through share premium, which is recognized as a liability. Upon expenditures being incurred, the Company derecognizes the liability. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

(d) Share-based compensation

The Company grants stock options to directors, officers, employees and consultants. Share-based compensation to employees is measured on the grant date at the fair value of the equity instruments issued, using the Black-Scholes option pricing model and is accrued and charged either to operations or exploration and evaluation assets, over the vesting periods. Share-based compensation to non-employees is measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and is recorded at the date the goods or services are received. The offset to the recorded cost is to contributed surplus. If an option or warrant is cancelled or has expired, the fair value of the option, which was accrued to contributed surplus, is reallocated to deficit.

(e) Income tax

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income (loss) or equity is recognized in other comprehensive income (loss) or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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Notes to the Condensed Interim Financial Statements

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(Unaudited) (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax (Continued)

(ii) Deferred income tax (Continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(f) Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(g) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed using the treasury stock method, under which the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Accounting standards adopted during the period

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets:**
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities:**
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets:**
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:**
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The amendments are effective for annual periods beginning March 1, 2018.

(i) Accounting standards issued but not yet applied

The following new standards have been issued by the IASB, but are not yet effective:

IFRS 16 *Leases*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Accounting standards issued but not yet applied (Continued)

IFRS 16 Leases (Continued)

- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard is effective for annual periods beginning March 1, 2019, with earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-based Payment*)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning March 1, 2018.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classifies its financial instrument as follows:

- Cash is classified as a financial asset at FVTPL
- Accounts payable and accrued liabilities, as other financial liabilities

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash.

The Company limits exposure to credit risk through maintaining its cash with high-credit quality Canadian financial institutions. The Company is not exposed to significant credit risk on receivables, as these amounts are due from government agencies. The carrying amount of financial assets represents the maximum credit exposure.

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Notes to the Condensed Interim Financial Statements

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(Unaudited) (Expressed in Canadian dollars)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company is not exposed to significant liquidity risk. All of the Company's financial liabilities have contractual maturities of less than 90 days.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will significantly fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, foreign currency rates and other price risk. The Company is not exposed to significant market risk.

5. PREPAID EXPENSES

	May 31, 2018	February 28, 2018
Advertising and promotion	\$ -	\$ 78,042
Consulting	388,292	174,792
Rent	1,780	1,780
Security deposit	3,000	3,000
Total	\$ 393,072	\$ 257,614

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

On January 30, 2018, the Company consolidated all of its issued and outstanding share capital on the basis of one post-consolidation common share for 10 pre-consolidation common shares. At the date of consolidation, the Company had 4,864,329 common shares issued and outstanding. All figures as to the numbers of common shares, stock options, warrants, and loss-per-share in these financial statements have been retroactively restated to reflect the consolidation.

On October 12, 2017, the Company closed a non-brokered flow-through private placement of 1,000,000 flow-through units (the "FT Unit") at a price of \$0.50 per FT Unit for gross proceeds of \$500,000. Each FT Unit consists of one flow-through share of the Company and one common share purchase warrant (the "Warrant"). Each Warrant is convertible into one common share at a price of \$1.00 per share and is exercisable for a period of one year. The Warrants were valued at \$Nil using the residual value method and no value was allocated to the flow-through premium. As at May 31, 2018, the Company had \$500,000 (February 28, 2018 - \$500,000) of flow-through expenditure commitments.

During the year ended February 28, 2018, the Company issued 8,000 common shares having a value of \$4,800 which were capitalized to exploration and evaluation assets. (Note 7)

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(Unaudited) (Expressed in Canadian dollars)

6. SHARE CAPITAL (CONTINUED)

(b) Issued and outstanding (Continued)

On February 2, 2018, the Company closed the first tranche of a non-brokered private placement for 4,500,000 units for gross proceeds of \$1,215,000 at a price of \$0.27 per unit. Each unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant is convertible into one common share at a price of \$0.36 per share and is exercisable for a period of one year. The Warrants were valued at \$Nil using the residual value method. As at May 31, 2018, subscription proceeds of \$248,400 (February 28, 2018 - \$248,400) remained receivable. (Note 12)

During the year ended February 28, 2018, the Company collected \$175,500 of proceeds for an over-subscribed private placement. This amount was included in accounts payable and accrued liabilities as at February 28, 2018 and was returned to the subscribers during the period ended May 31, 2018.

(c) Stock options

The Company adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX Venture Exchange (the "Exchange") requirements, grant to directors, officers, and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a period of up to two years from the date of grant, and must comply with the rules of the Exchange.

During the year ended February 28, 2017, the Company granted 265,000 stock options to officers, directors and consultants in accordance with the policies of the Exchange. Of these stock options, 122,500 stock options are exercisable at a price of \$2.00 per share and expire two years from the date of grant, 112,500 stock options are exercisable for a two-year period at a price of \$5.00 per share and expire two years from the date of the grant, and 30,000 stock options are exercisable at a price of \$6.00 per share and expire two years from the date of grant.

The fair value of the stock options was estimated to be \$659,414. The fair value of the stock options was determined using the Black-Scholes option pricing model and the following weighted average assumptions: share price of \$0.36, expected share price volatility of 150%, expected life of two years and risk-free interest rate of 0.68%. The expected volatility is based on an average of historical prices of a comparable group of companies within the same industry due to the lack of historical pricing information for the Company. The weighted average fair value per option at the grant date was \$2.70. In accordance with the vesting schedule for these options, \$Nil of share-based compensation expense has been recognized during the period ended May 31, 2018 (February 28, 2018 - \$36,775).

As at May 31, 2018, the Company had options outstanding enabling holders to acquire the following:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Balance, February 28, 2017	265,000	\$ 3.73	1.78
Options granted	-	-	-
Balance, February 28, 2018	265,000	\$ 3.73	0.77
Balance, May 31, 2018	265,000	\$ 3.73	0.52
Number exercisable	265,000	\$ 3.73	0.52

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(Unaudited) (Expressed in Canadian dollars)

6. SHARE CAPITAL (CONTINUED)

(c) Stock options (Continued)

Details of stock options outstanding at May 31, 2018 are as follows:

Number of Stock Options	Exercise Price	Remaining Contractual Life (years)	Expiry Date
100,000	\$ 2.00	0.44	November 8, 2018
20,000	2.00	0.46	November 15, 2018
2,500	2.00	0.49	November 26, 2018
112,500	5.00	0.56	December 23, 2018
30,000	\$ 6.00	0.67	January 31, 2019
265,000			

(d) Escrow shares

As at May 31, 2018, there were 12,625 (February 28, 2018 - 25,250) shares held in escrow in accordance with the Exchange policies on commencement of trading on the Exchange, which were previously issued to related parties. The shares held in escrow are released over a 30-month period ending December 9, 2018.

(e) Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Warrants Outstanding	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance, February 28, 2017	825,000	\$ 3.00	0.83
Warrants issued	5,500,000	0.40	0.87
Warrants expired	(825,000)	(3.00)	(0.83)
Balance, February 28, 2018	5,500,000	\$ 0.40	0.87
Balance, May 31, 2018	5,500,000	\$ 0.40	0.62

Details of share purchase warrants outstanding as of May 31, 2018 are as follows:

Number of Warrants	Exercise Price	Remaining Contractual Life (years)	Expiry Date
1,000,000	\$ 1.00	0.37	October 11, 2018
4,500,000	\$ 0.27	0.68	February 2, 2019
5,500,000			

Kootenay Zinc Corp.

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6. SHARE CAPITAL (CONTINUED)

(f) Broker's fee warrants

As at May 31, 2018, the Company has broker's fee warrants outstanding entitling the holders to acquire common shares as follows:

	Warrants Outstanding	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance, February 28, 2017	105,960	\$ 3.00	0.83
Warrants expired	(105,960)	-	-
Balance, February 28, 2018 and May 31, 2018	-	\$ -	-

7. EXPLORATION AND EVALUATION ASSETS

Murray Ridge Property

The Company has 100% interest in the Murray Ridge Property ("Murray Ridge") in the Omineca Mining Division in central British Columbia. Upon commencement of any commercial production on Murray Ridge, 0860208 B.C. Ltd., the original owner of Murray Ridge, will have a 1% net smelter royalty on Murray Ridge.

During the year ended February 28, 2017, the Company let the Murray Ridge claims lapse and no longer owns Murray Ridge.

Sully Property

On September 30, 2016, the Company entered into an option agreement with Gravitas Metals Corp. ("Gravitas") and the shareholders of Gravitas, pursuant to which the Company has the option to acquire all of the issued and outstanding shares of Gravitas, a private corporation, incorporated under the laws of British Columbia, which, pursuant to an option agreement between Gravitas and the holders of the Sully Property dated October 21, 2011 and last amended August 9, 2016, holds an exclusive option and right to acquire an 80% interest in mining claims located in the Fort Steele Mining Division in the southeast portion of the province of British Columbia.

Pursuant to the terms of the agreement, as amended on October 20, 2017, the option is exercisable by the Company by (a) issuing to the Gravitas vendors, on a pro rata basis, on or before the expiry of the option period such number of common shares of the Company equal to 35% (post-issuance) of the issued and outstanding common shares of the Company, and (b) satisfying all of the outstanding obligations of Gravitas under the underlying Sully Property agreement as follows:

- Incurring expenditures on or in respect of the Sully property, including:
 - \$1,500,000 on or before October 21, 2017 (approximately \$1,340,000 completed by Gravitas as of the date of the agreement); and
 - An additional \$1,500,000 on or before October 21, 2018.
- Making payments in the form of cash, common shares of the Company to the Sully vendors, including:
 - 8,000 common shares on or before October 21, 2017 (issued); and
 - \$200,000 on or before April 21, 2018.

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

For the periods ended May 31, 2018 and 2017

(Unaudited) (Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Sully Property (Continued)

In addition, upon exercising the Sully Property option, Gravitas will become a wholly owned subsidiary of the Company, and the Company and the Sully vendors will form an 80/20 joint venture. A 2% net smelter returns royalty will be held in favour of the Sully vendors, half of which may be purchased back by Gravitas for \$5,000,000. Pursuant to a right of first refusal purchase agreement dated August 9, 2016, holder of the Sully Property also granted to Gravitas a right of first refusal to purchase the remaining collective 20% interest in the Sully Property or the individual 5% interest of the Sully Property from the Sully vendors after the exercise of the Sully Property option.

During the year ended February 28, 2017, the Company issued 50,000 common shares for finder fees in relation to the option agreement, which were valued at \$100,000 (Note 6) and were capitalized to exploration and evaluation assets.

During the year ended February 28, 2018, the Company issued 8,000 common shares as payment in relation to the option agreement, which were valued at \$4,800 (Note 6) and were capitalized to exploration and evaluation assets.

The Company did not meet the April 21, 2018 payment requirement. The Company determined that the carrying value of its interest in the Sully Property was impaired as no additional expenditures are planned for the property. As a result, the Company wrote-off cumulative costs incurred to date on the Sully Property of \$980,886 as an impairment loss, determined in accordance with Level 3 of the fair value hierarchy.

As of May 31, 2018, the exploration expenditures incurred by the Company related to the Sully property was as follows:

	Exploration Expenditures
Balance, February 28, 2016	\$ -
Geophysics	13,378
Finder fees	100,000
Drilling	210,525
Geological consulting (Note 8)	172,521
Balance, February 28, 2017	\$ 496,424
Acquisition	4,800
Geophysics and modelling	58,932
Drilling	192,748
Geological consulting (Note 8)	221,913
Testing and analysis	6,069
Write-down of exploration and evaluation assets	(980,886)
Balance, February 28, 2018 and May 31, 2018	\$ -

Kootenay Zinc Corp.

Notes to the Condensed Interim Financial Statements

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(Unaudited) (Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

Key management compensation

Key management personnel at the Company are the directors and officers of the Company. The remuneration of key management personnel during the periods ended May 31, 2018 and 2017 as follows:

	2018	2017
Accounting fees	\$ 15,000	\$ 6,000
Management fees	\$ 70,000	\$ 15,000
Geological consulting fees	\$ 5,721	\$ 28,664

At May 31, 2018, \$23,100 (February 28, 2018 - \$38,850) was included in accounts payable as owing to related parties. Amounts due to (from) related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

9. CAPITAL MANAGEMENT

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's general operations. To effectively manage the Company's capital requirements, the Company monitors expenses and overhead to ensure costs and commitments are being paid.

The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations, and is not subject to any externally imposed capital requirements. There were no changes in the Company's capital management approach during the period ended May 31, 2018.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern.

10. SEGMENTED REPORTING

The Company has one operating segment, the exploration and development of mineral properties, with all assets located in Canada.

11. COMMITMENT

The Company entered into a lease agreement for its premises for a term of three years from September 2016 to August 2019 for a monthly lease payment of \$1,780. The total lease commitment as at May 31, 2018 is as follows:

0-1 years	\$ 21,360
2-3 years	5,340
	\$ 26,700

12. SUBSEQUENT EVENT

Subsequent to the period, the Company received \$243,000 share subscriptions receivable from the private placement closed in February 2018. (Note 6 (b)).