

Kootenay and Northair combine to create a leading Mexican Silver Consolidator

Kootenay Silver Inc. {TSX.V: KTN} and **Northair Silver Corp. {TSX.V: INM}** have just announced a binding letter of agreement for Kootenay to acquire all the outstanding shares of Northair Silver, creating a leading Mexican based silver exploration and development company.

The feeling is that the combined assets will create a company of more substance that will be of far greater interest to investors.

Kootenay and Northair Announce Transaction to Create Leading Mexican Silver Consolidator

VANCOUVER, Jan. 13, 2016 – **Kootenay Silver Inc. {TSX.V: KTN}** and **Northair Silver Corp. {TSX>V: INM}** are pleased to announce the execution of a Binding Letter Agreement (the “Binding Letter Agreement”) pursuant to which Kootenay will acquire all of the issued and outstanding common shares of Northair (the “Transaction”).

The combination of Kootenay and Northair will create a leading Mexican silver exploration and development company and consolidator with a portfolio of assets headlined by Kootenay’s Promontorio and La Negra projects and Northair’s La Cigarra project, all of which are based in Mexico.

In addition, the combined company will have exposure to a continuum of grass-roots pipeline exploration projects, royalty interests and joint ventures, plus a strong balance sheet providing the combined company with a stable platform for future consolidation in the sector.

Under the terms of the Binding Letter of Agreement, Northair shareholders will receive, for each common share of Northair held, 0.35 common shares of Kootenay, plus 0.15 of a warrant to purchase Kootenay common shares at an exercise price of \$0.55 for a period of five years from closing (the "Warrants"). Kootenay will apply to list the Warrants on the TSX Venture Exchange. Including the Warrants ((1)), the total consideration represents an implied value of \$0.076 per Northair common share and a premium of 58% to Northair's shareholders based on both companies' trailing 20-day volume-weighted average price, respectively, as of the close on January 12, 2016, and an implied value of \$0.071 per Northair common share and a premium of 45% to Northair's shareholders based on both companies' closing share prices, respectively, as of the same date. Upon completion of the Transaction, Northair will become a wholly-owned subsidiary of Kootenay, and former shareholders of Northair will hold approximately 40% of the shares of Kootenay on an outstanding shares basis.

Kootenay President and CEO James McDonald commented: *"The strategic acquisition of Northair and its La Cigarra silver project is a milestone development for both companies that immediately positions Kootenay as a leading consolidator of emerging silver and precious metals assets in Mexico. The transaction provides Northair shareholders with an attractive premium on its capital stock, while Kootenay will enjoy the benefits of a substantially increased silver asset base and corporate balance sheet, setting the stage for the future*

development of its assets, additional potential revenue streams, and further consolidation in the sector."

Andrea Zaradic, President, CEO & Director of Northair, stated:
"La Negra and La Cigarra represent two of the highest profile new silver discoveries amongst non-majors in Mexico. The continued exploration successes at our flagship projects put the combined company in a strong position, distinguishing us from our peers. We are confident that our shareholders will benefit from the value creation opportunities that will be realized through an expanded and more diversified silver consolidation company."

Kootenay and Northair will host a conference call and live audio webcast on Thursday January 14, 2015 at 16:00 GMT to provide a short overview on the significance of this Transaction.

Conference call and live audio webcast details are located at the end of this release and on the Kootenay and Northair websites at www.kootenaysilver.com and www.northairsilver.com

**A copy of the investor presentation is currently available at:
Kootenay-Presentation and Northair-Presentation**

Transaction Highlights

– Consolidation of High Profile Silver Resources in Mexico: A unique portfolio of high-quality resource-development staged assets in Mexico headlined by Kootenay's Promontorio and La Negra projects and Northair's La Cigarra project.

Promontorio has a NI 43-101 pit-constrained resource consisting of 92.0 M oz Ag Eq Measured and Indicated (44.5 M tonnes at a grade of 64.3 g/t Ag Eq) plus an additional 24.3 M oz Ag Eq categorized as Inferred (14.6 M tonnes at a grade of 52.0 g/t Ag Eq) (see Table 1).

La Cigarra has a pit-constrained NI 43-101 resource consisting of 51.5 M oz Ag Measured and Indicated (18.5 M tonnes at 86.3 g/t Ag) plus an additional 11.5 M oz Ag (4.5 M tonnes at 80.0 g/t Ag) categorized as Inferred resources (see Table 2).* –

Continued Exploration Potential and Resource Upside: Promontorio/La Negra and La Cigarra have all demonstrated continued exploration success since release of their NI 43-101 resource statements. The combined company will continue its focus on resource growth into 2016, with an exploration drilling program planned at La Negra in H1/2016, leading to a maiden NI 43-101 resource estimate, plus plans to drill test high profile targets identified during the 2015 air mag survey at La Cigarra (including the RAM Zone) and to further evaluate regional prospectivity within the 100% owned Promontorio Mineral Belt. –

Prospect Generator Portfolio: In addition to resource development-stage assets, the combined company will maintain an active portfolio of generative properties within Mexico and Canada. Kootenay currently has four joint ventures partners in place and will continue to pursue further monetisation opportunities which will provide the combined company with additional, non-dilutive asset exposure and diversification. –

Platform for Further Consolidation: Northair and Kootenay both believe that investors in today's market are increasingly attracted by larger, more liquid exploration and development companies. The combined company, with rationalized G&A and a stronger balance sheet, will be positioned for growth and mandated to pursue further consolidations within the depressed junior silver sector.

Tables for the mineral resources can be found on the full news release on the respective websites.

Notes: * Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.

1 Open pit resources stated as contained within a potentially economically minable pit shell; (2) Pit optimisation is based on assumed silver, gold, lead, and zinc prices of \$31/oz, \$1650/oz, \$0.96/lb, and \$0.89/lb respectively, mill recoveries of 74%, 70%, 81% and 88% respectively, a 1.5% NSR, Estimated mining costs of \$1.20/t, and estimated processing and G&A cost of \$12.00/t; and an estimated POX cost of \$2/tonne (\$30/tonne of pyrite concentrate) (3) Break-even cut-off grades used were 20 gpt Ag Eq for open pit mill material and 45 gpt Ag Eq for underground material; 4 Silver equivalency is based on unit values calculated from the above metal prices, and assumes 100% recovery of all metals; and 5 Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.

Table 2: Resource statement for the La Cigarra silver project located in Chihuahua State, Mexico: GeoVector Management Inc., Effective Date January 14, 2015*

Resource	Tonnes	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag Oz	Au Oz	Pb
lbs	Zn lbs	Category	(000's)	(000's)	(000's)	(000's)	(000's)	—
—	—	—	—	Measured	3,620	88.9	0.074	0.14
0.19	10,340	9	10,920	15,510	—	—	—	—
—	—	—	—	Indicated	14,930	85.7	0.068	0.13
0.18	41,130	33	42,950	59,260	—	—	—	—
—	—	—	—	M+I	18,540	86.3	0.069	0.13
0.18	51,470	41	53,870	74,770	—	—	—	—
—	—	—	—	Inferred	4,450	80.0	0.058	0.13
0.16	11,460	8	12,680	15,610	—	—	—	—

Note:* Mineral resources are reported in relation to a conceptual pit shell at a 35 g/t silver cut-off grade and a \$22/oz silver price. All figures are rounded to reflect the relative accuracy of the estimate and numbers may not add up due to rounding. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.

The Promontorio and La Cigarra NI 43-101 reports, including the assumptions therein, are filed on SEDAR at www.sedar.com, and available at <http://www.northairsilver.com> and <http://www.kootenaysilver.com>.

Management Team and Board of Directors

The senior executive team and the Board of Directors of the combined company will draw from the extensive experience and expertise of both companies. Mr. Ken Berry will remain Chairman and Mr. James McDonald will remain as President & Chief Executive Officer of the combined company. Upon closing of the Transaction, Ms. Andrea Zaradic and Mr. Tony Reda of Northair will be appointed to the Kootenay board of directors.

Transaction Details

Pursuant to the Binding Letter Agreement, the proposed Transaction will be effected by way of a court approved Plan of Arrangement completed under the British Columbia Business Corporations Act. Upon closing, each Northair common shareholder will receive 0.35 common shares of Kootenay plus 0.15 of a Kootenay Warrant. The proposed Transaction will require shareholder approval from two-thirds of the votes cast by the holders of Northair common shares at a shareholder meeting to be held to consider the proposed Transaction.

The parties expect to execute a definitive agreement (the "Definitive Agreement") on or before February 3, 2016. Upon completion of the Transaction, the former shareholders of Northair will own approximately 40% of the Kootenay shares on an outstanding shares basis.

Northair's outstanding options and warrants will be adjusted in accordance with their terms such that the number of Kootenay shares received upon exercise and the exercise price will reflect the consideration described above.

Northair's Board of Directors have determined that the proposed Transaction is in the best interest of shareholders, having taken into account advice from its financial advisor and the recommendation of the special committee of the Board of Directors, and have approved the Transaction. Northair's Board of Directors recommend that their shareholders vote in favour of the Transaction.

The proposed Transaction is expected to be completed in April

2016 or such other date as the parties may agree.

In addition to shareholder approval, the proposed Transaction will be subject to applicable regulatory and court approvals and the satisfaction of other customary conditions. The Definitive Agreement will include customary provisions, including fiduciary-out provisions, covenants not to solicit other acquisition proposals and the right to match any superior proposal. In addition, Northair may be required to pay a termination fee of \$500,000 if the transaction is terminated as a result of Northair accepting a superior proposal or completing an alternative proposal within 12 months of termination of the Transaction.

Upon completion of the Transaction, Northair's shares will be de-listed from the TSX Venture Exchange and it is expected that Kootenay will apply to cause Northair to cease being a reporting issuer under applicable Canadian securities laws.

Upon execution of the Definitive Agreement, the full details of the proposed Transaction will be included in the management information circular to be filed with regulatory authorities and mailed to Northair shareholders in accordance with applicable securities laws.

Advisers and Counsel

Axium Law Corporation is acting as legal counsel to Kootenay.

Haywood Securities Inc. is acting as financial advisor to Northair and its Board of Directors. Morton Law LLP is acting as legal counsel to Northair. Haywood Securities Inc. has

provided a fairness opinion to Northair's Board of Directors that, as of the date thereof and subject to the assumptions, limitations and qualifications set out therein, the transaction is fair, from a financial point of view, to the shareholders of Northair.

Conference Call and Webcast Information

Kootenay and Northair will host a joint conference call and webcast on Thursday January 14, 2016 at 16.00 GMT for members of the investment community to discuss the business combination. [A copy of the investor presentation that will be used during the conference call is currently available at: Kootenay-Presentation and Northair-Presentation.](#)

[The conference call may be accessed by dialing 1-416-340-2218](#)

[The conference call will be archived for later playback until January 28, 2016 and may be accessed by dialing 1-905-694-9451 and entering the pass code 7750990.](#)

Audio Webcast:

A live webcast of the conference call can be accessed via the following link: <http://www.gowebcasting.com/7229> or via <http://www.kootenaysilver.com> and <http://www.northairsilver.com>

An archived version of the webcast will be available via the following link: <http://www.gowebcasting.com/7229> and via <http://www.kootenaysilver.com> and <http://www.northairsilver.com>

Qualified Persons

The Kootenay technical information in this news release has been prepared in accordance with the Canadian regulatory requirements set out in NI 43-101 and reviewed on behalf Kootenay by James McDonald, P.Geo, President, CEO & Director for Kootenay, a Qualified Person.

The Northair disclosure of a scientific or technical nature contained in this news release was reviewed by David Ernst, a professional geologist and vice-president of exploration of Northair, who is a Qualified Person in accordance with the requirements of NI 43-101.

About Kootenay

Kootenay Silver Inc. is an exploration company actively engaged in the discovery and development of mineral projects in the Sierra Madre Region of Mexico and in British Columbia, Canada.

The Company's top priority is the advancement of precious metals projects contained within its Promontorio Mineral Belt in Sonora, Mexico. This includes its La Negra high-grade silver discovery and its Promontorio Silver Resource. Kootenay's core objective is to develop near term discoveries and long-term sustainable growth. Management comprises proven

professionals with extensive international experience in all aspects of mineral exploration, operations and venture capital markets. Multiple, ongoing J/V partnerships in Mexico and Canada maximize potential for additional new discoveries while maintaining minimal share dilution.

About Northair

Northair is focused on advancing its flagship La Cigarra silver project located in the state of Chihuahua, Mexico, 26 kilometres from the historic silver mining city of Parral.

The property boasts nearby power, good road access, gentle topography, established infrastructure and currently hosts a NI 43-101 Resource estimate of 51.47 million ounces of silver in the Measured & Indicated categories grading 86.3 g/t silver and 11.46 million ounces of silver in the Inferred category grading 80 g/t silver. The mineralised system at La Cigarra has been traced over 6.5 kilometres and is defined at surface as a silver soil anomaly and by numerous historic mine workings. The La Cigarra silver deposit is open along strike and at depth and is approximately 25 km north, and along strike of Grupo Mexico's Santa Barbara mine and Minera Frisco's San Francisco del Oro mine.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information in this news release has been prepared as at January 12, 2016. Certain statements in this news release,

referred to herein as “forward-looking statements”, constitute “forward-looking statements” under the provisions of Canadian provincial securities laws. These statements can be identified by the use of words such as “expected”, “may”, “will” or similar terms.

Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by Kootenay and Northair as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements in this press release relate to, among other things: anticipated benefits of the Transaction to Kootenay and Northair and their respective shareholders; the pro rata shareholdings of the current shareholders of Northair in Kootenay; the timing and receipt of required shareholder, court, stock exchange and regulatory approvals for the Transaction; the ability of Kootenay and Northair to satisfy the other conditions to, and to complete, the Transaction; the anticipated timing of the mailing of the information circular regarding the Transaction; the closing of the Transaction; analyst coverage, liquidity and access to capital markets of Kootenay; length of the current market cycle and the requirements for an issuer to survive the current market cycle and future growth potential for Kootenay. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements reflect the beliefs, opinions and projections on the date the statements are made and are based upon a number of assumptions and estimates that, while considered reasonable by the respective parties, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or

implied by such forward-looking statements and the parties have made assumptions and estimates based on or related to many of these factors. Such factors include, without limitation: satisfaction or waiver of all applicable conditions to closing of the Transaction including, without limitation, receipt of all necessary securityholder, court, stock exchange and regulatory approvals or consents and lack of material changes with respect to the parties and their respective businesses; the synergies expected from the Transaction not being realized; business integration risks; fluctuations in general macro-economic conditions; fluctuations in securities markets and the market price of Kootenay's shares; fluctuations in the spot and forward price of silver, base metals or certain other commodities; fluctuations in the currency markets (such as the Canadian dollar versus the U.S. dollar); changes in national and local government, legislation, taxation, controls, regulations and political or economic developments; risks and hazards associated with the business of mineral exploration, development and mining (including environmental hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins and flooding); inability to obtain adequate insurance to cover risks and hazards; and the presence of laws and regulations that may impose restrictions on mining; employee relations; relationships with and claims by local communities and indigenous populations; availability and increasing costs associated with mining inputs and labour; the speculative nature of mineral exploration and development, including the risks of obtaining necessary licenses, permits and approvals from government authorities; title to properties; the failure to meet the closing conditions thereunder and the failure by counterparties to such agreements to comply with their obligations thereunder. In addition, Northair may in certain circumstances be required to pay a non-completion or other fee to Kootenay, the result of which could have a material adverse effect on Northair's financial position and results of operations and its ability

to fund growth prospects and current operations. Readers should not place undue reliance on the forward-looking statements and information contained in this news release concerning these times. Many factors, known and unknown, could cause actual results to be materially different from those expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. Except as otherwise required by law, Kootenay and Northair expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in Kootenay or Northair's expectations or any change in events, conditions or circumstances on which any such statement is based.

Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Mineral Resources: This news release uses the terms "Measured and Indicated Resources" and "Inferred Resources", which have a great amount of uncertainty as to their existence, and great uncertainty as to their economic feasibility. It cannot be assumed that all or any part of a Measured and Indicated and/or Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Resources may not form the basis of feasibility or other economic studies. Kootenay and Northair advises U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. U.S. investors are cautioned not to assume that part or all of a Measured, Indicated and Inferred resource exists, or is economically or legally minable.

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