



WWW.KESSELRUNRESOURCES.COM

TSX-V: KES

**KESSELRUN RESOURCES LTD.
CONDENSED INTERIM FINANCIAL
STATEMENTS
UNAUDITED – PREPARED BY MANAGEMENT
(expressed in Canadian Dollars)
FOR THE THREE AND SIX MONTHS ENDED
JANUARY 31, 2018 & 2017**

**NOTICE OF NO AUDITOR REVIEW
OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2018 & 2017**

The accompanying unaudited condensed interim financial statements of Kesselrun Resources Ltd. (the “Company”) for the three and six months ended January 31, 2018 and 2017, have been prepared by, and are the responsibility of, the Company’s management.

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 the condensed interim statements by an entity’s auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

KESSELRUN RESOURCES LTD.
STATEMENTS OF FINANCIAL POSITION
 (Expressed in Canadian Dollars)

	Note	January 31, 2018	July 31, 2017
(Unaudited)			
ASSETS			
Current			
Cash		\$ 252,019	\$ 240,974
GST receivable		19,925	19,972
Prepaid expenses		5,090	71,575
Marketable securities	4	2,140,980	2,867,000
Total current		2,418,014	3,199,521
Exploration and evaluation assets	3	2,473,349	2,088,416
Total assets		\$ 4,891,363	\$ 5,287,937
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable		\$ 16,814	\$ 3,303
Accrued liabilities		3,118	11,132
Due to related parties	6	268,482	97,364
Note payable	6	303,092	291,151
Total liabilities		591,506	402,950
Shareholders' equity			
Share capital	5	5,948,427	5,918,427
Share-based payment reserve	5	546,375	438,910
Deficit		(2,194,945)	(1,472,350)
Total shareholders' equity		4,299,857	4,884,987
Total liabilities and shareholders' equity		\$ 4,891,363	\$ 5,287,937

Nature and continuance of operations (Note 1)

Approved on behalf of the Board of Directors:

/s/ Joao (John) da Costa
 Director

/s/ Michael John Thompson
 Director

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

KESSELRUN RESOURCES LTD.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 Unaudited - Prepared by Management
 (Expressed in Canadian Dollars)

	Note	Three months ended		Six months ended	
		January 31,		January 31,	
		2018	2017	2018	2017
Expenses:					
Accounting and audit	6	\$ 6,000	\$ 6,000	\$ 15,770	\$ 15,370
Administration	6	6,000	6,000	12,000	12,000
Advertising and promotion		28,362	159	68,727	846
Consulting	6	21,000	21,000	42,000	67,875
Filing fees		8,335	7,590	11,230	10,318
Legal fees		901	5,958	901	33,816
Meals and entertainment		1,299	2,105	1,675	3,237
Office expenses		2,164	3,492	3,152	5,219
Project investigation costs	6	-	-	-	1,150
Share-based compensation	5	107,465	14,199	107,465	(10,454)
Travel		3,864	3,624	6,985	3,846
Total expenses		(185,390)	(70,127)	(269,905)	(143,223)
Other items:					
Interest income		-	213,990	-	213,990
Interest on notes payable	6	(6,031)	(833)	(11,941)	(833)
Realized loss on investment	4	(46,049)	-	(46,049)	-
Unrealized loss on investment	4	(394,700)	-	(394,700)	-
Income (loss) and comprehensive income (loss) for the period		\$ (632,170)	\$ 143,030	\$ (722,595)	\$ 69,934
Income (loss) per share, basic and diluted		\$ (0.02)	\$ 0.00	\$ (0.02)	\$ 0.00
Weighted average number of common shares outstanding - basic		37,227,613	36,763,483	37,095,548	36,749,848
Weighted average number of common shares outstanding - diluted		37,227,613	42,868,250	37,095,548	42,854,615

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

KESSELRUN RESOURCES LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 Unaudited - Prepared by Management
 (Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share-based Payment Reserve	Deficit	Total
Balance, July 31, 2016	36,685,083	\$ 5,881,940	\$ 442,639	\$ (4,428,848)	\$ 1,895,731
Exercise of warrants	78,400	12,487	(4,647)	-	7,840
Share-based compensation	-	-	(10,454)	-	(10,454)
Net and comprehensive income for the period	-	-	-	69,934	69,934
Balance, January 31, 2017	36,763,483	5,894,427	427,538	(4,358,914)	1,963,051
Acquisition of exploration and evaluation assets	200,000	24,000	-	-	24,000
Share-based compensation	-	-	11,372	-	11,372
Net and comprehensive income for the period	-	-	-	2,886,564	2,886,564
Balance, July 31, 2017	36,963,483	5,918,427	438,910	(1,472,350)	4,884,987
Exercise of warrants	300,000	30,000	-	-	30,000
Share-based compensation	-	-	107,465	-	107,465
Net and comprehensive loss for the period	-	-	-	(722,595)	(722,595)
Balance, January 31, 2018	37,263,483	\$ 5,948,427	\$ 546,375	\$ (2,194,945)	\$ 4,299,857

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

KESSELRUN RESOURCES LTD.
STATEMENTS OF CASH FLOWS
 Unaudited - Prepared by Management
 (Expressed in Canadian Dollars)

	Six months ended	
	January 31,	
	2018	2017
Cash flows used in operating activities		
Income (loss) for the period	\$ (722,595)	\$ 69,934
Items not affecting cash used in operations		
Accrued interest	11,941	833
Share-based compensation	107,465	(10,454)
Interest income earned	-	(213,990)
Loss on investment, realized	46,049	-
Loss on investment, unrealized	394,700	-
Changes in non-cash working capital items		
GST receivable	47	(98,799)
Prepaid expenses	66,485	20,433
Accounts payable	13,511	49,121
Accrued liabilities	(8,014)	(25,874)
Net cash used in operating activities	(90,411)	(208,796)
Cash flows used in investing activities		
Exploration and evaluation assets	(384,933)	(710,109)
Cash received from sale of equity investment	285,271	-
Interest received from debentures	-	213,990
Net cash used in investing activities	(99,662)	(496,119)
Cash flows provided by financing activities		
Notes payable	-	200,000
Due to related parties	171,118	190,565
Exercise of warrants	30,000	7,840
Net cash provided by financing activities	201,118	398,405
Increase (decrease) in cash	11,045	(306,510)
Cash, beginning	240,974	536,370
Cash, ending	\$ 252,019	\$ 229,860

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Kesselrun Resources Ltd. (the “Company”), was incorporated under the *Business Corporations Act* (British Columbia) on May 18, 2011. The Company is engaged in the acquisition, exploration, and development of mineral properties. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) and on OTC Pink.

These interim condensed financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at January 31, 2018, the Company has not advanced its mineral properties to commercial production and is not able to finance day to day activities through operations. The Company’s continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. As at January 31, 2018, the Company held 4,198,000 common shares of First Mining Finance Corp. (“First Mining”) valued at \$2,140,980 (Note 4). The shares are free-trading and do not hold any significant restrictions; as such the Company has enough liquid assets to continue its exploration activities and support its day-to-day operations for the next 12-month period.

The Company’s head office and principal address is 278 Bay Street, Suite 102, Thunder Bay, ON P7B 1R8.

2. BASIS OF PREPARATION

a) Statement of Compliance

The unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting. The unaudited condensed interim financial statements, prepared in conformity with IAS 34, follow the same accounting principles and methods of application as the most recent audited annual financial statements. Since the unaudited condensed interim financial statements do not include all disclosures required by the International Financial Reporting Standards (“IFRS”) for annual financial statements, they should be read in conjunction with the Company’s audited annual financial statements for the year ended July 31, 2017.

b) Accounting standards issued but not yet effective

A number of new accounting standards, amendments to standards, and interpretations have been issued but not yet effective up to the date of issuance of the Company’s unaudited condensed interim financial statements. The Company intends to adopt the standards when they become effective. The Company has not yet determined the impact of these standards on its financial statements, but does not anticipate that the impact will be significant.

3. EXPLORATION AND EVALUATION ASSETS

As of January 31, 2018, the Company’s interest in exploration and evaluation assets consisted of the Bluffpoint Property and the Huronian Property. The following acquisition and deferred exploration costs were incurred on the Company’s exploration and evaluation projects:

3. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Exploration and evaluation assets at January 31, 2018

	Bluffpoint	Huronian	Total
Acquisition costs, July 31, 2017	\$ 244,060	\$ 1,084,966	\$ 1,329,026
Additions during the period	-	-	-
Acquisition costs, January 31, 2018	244,060	1,084,966	1,329,026
Deferred exploration costs, July 31, 2017	409,355	350,035	759,390
Additions during the period:			
Assaying	-	9,773	9,773
Camp and travel	-	36,525	36,525
Equipment use / rental	-	156,935	156,935
Geology	-	181,700	181,700
Deferred exploration costs, January 31, 2018	409,355	734,968	1,144,323
Total exploration and evaluation assets, January 31, 2018	\$ 653,415	\$ 1,819,934	\$ 2,473,349

Exploration and evaluation assets at July 31, 2017

	Bluffpoint	Huronian	Total
Acquisition costs, July 31, 2016	\$ 244,060	\$ 1,040,000	\$ 1,284,060
Additions during the year	-	44,966	44,966
Acquisition costs, July 31, 2017	244,060	1,084,966	1,329,026
Deferred exploration costs, July 31, 2016	70,493	-	70,493
Additions during the year:			
Assaying	19,690	16,262	35,952
Camp and travel	39,785	59,575	99,360
Claim maintenance	-	1,617	1,617
Equipment use / rental	124,840	128,689	253,529
Geology	254,547	243,892	498,439
Grants received	(100,000)	(100,000)	(200,000)
Deferred exploration costs, July 31, 2017	409,355	350,035	759,390
Total exploration and evaluation assets, July 31, 2017	\$ 653,415	\$ 1,435,001	\$ 2,088,416

Bluffpoint Project

The Company holds a 100% interest in certain mining claims located in Bluffpoint Lake Township, with portions extending into the townships of Lawrence Lake, Napanee Lake and Barker Bay in the Kenora Mining Division of Northwestern Ontario (the “Bluffpoint Project”).

The Bluffpoint Project is subject to a 2% Net Smelter Royalty (“NSR”), of which 1% may be purchased by the Company at any time for the payment of \$1,000,000. If the optionors decide to dispose of their remaining 1% NSR, the Company has the first right of refusal to acquire the remaining 1% NSR on the same terms and conditions that the optionors propose to dispose of their NSR.

3. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Huronian Gold Project

The Company entered into a purchase agreement to acquire a 100% interest in the Huronian Gold Project (“Huronian Project”).

In consideration for the purchase, the Company agreed to issue 4,000,000 common shares, which were contingent upon approval from TSX-V. The Company received the approval from TSX-V on July 13, 2016, and issued 4,000,000 shares of its common stock on July 20, 2016. The shares had a fair value of \$1,040,000.

Huronian Project is subject to a NSR as detailed in the table below:

Township/Area	Claim Type	Claims	Total NSR
Moss	Unpatented	96	2.0%
Moss	Unpatented	57	2.5%
Moss	Patented	2	2.0%
Moss	Patented	2	2.5%
Total		157	

The Company retains a right to purchase up to 50% of the NSR by paying up to \$2,000,000. In addition, the Company retains a right of first refusal to acquire the NSR at the same terms and prices that would be set out in any arm’s length third party offer.

On February 15, 2017, the Company entered into a purchase agreement to acquire a 100% interest in a mining claim adjacent to the Huronian Project. In consideration for the purchase, the Company agreed to pay \$20,000 cash and to issue 200,000 shares of the Company’s common stock. The transaction was contingent upon approval from TSX-V, which was received on March 1, 2017. The Company issued 200,000 shares of its common stock on March 3, 2017, when the shares were valued at \$0.12 per share for a total fair value of \$24,000. The claim is subject to a 2% NSR, of which 1% may be purchased by the Company at any time for the payment of \$1,000,000.

4. MARKETABLE SECURITIES

The Company’s marketable securities consist of First Mining Shares (the “FM Shares”). During the period ended January 31, 2018, the Company sold 502,000 FM Shares for total cash proceeds of \$285,271, net of \$2,000 in brokerage fees. The Company realized a \$46,049 loss on the sale of the FM Shares.

At January 31, 2018, the investment in FM Shares was valued at \$2,140,980, based on the closing share price of \$0.51. The Company records its marketable securities as fair value through profit and loss (“FVPL”). During the six-month period ended January 31, 2018, the Company recorded a \$394,700 loss on revaluation of its securities to their fair market value.

5. SHARE CAPITAL

Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

Share issuances

During the six-month period ended January 31, 2018, the Company issued 300,000 common shares on exercise of warrants for total proceeds of \$30,000.

5. SHARE CAPITAL (CONTINUED)

Stock options

The Company has adopted an incentive stock option plan (the “Option Plan”) which provides that the Board of Directors of the Company may, from time to time, in its discretion and in accordance with TSX-V requirements, grant options to directors, officers and technical consultants for up to 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

A summary of the changes in the number of stock options outstanding during the six-month period ended January 31, 2018 and for the year ended July 31, 2017 is as follows:

	Six months ended		Year ended	
	January 31, 2018		July 31, 2017	
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise		exercise
		price		price
Options outstanding, beginning	1,845,000	\$ 0.10	2,895,000	\$ 0.10
Options granted	1,650,000	0.10	-	-
Options cancelled or expired	(100,000)	(0.60)	(1,050,000)	(0.10)
Options outstanding, ending	3,395,000	\$ 0.09	1,845,000	\$ 0.10
Options exercisable, ending	3,095,000	\$ 0.09	1,845,000	\$ 0.10

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

Exercise price	Expiry date	Remaining life	Number of options	Number of options
		(years)	outstanding	exercisable
\$0.05	March 26, 2020	2.15	700,000	700,000
\$0.06	April 13, 2021	3.20	300,000	300,000
\$0.08	May 3, 2018	0.25	150,000	150,000
\$0.11	May 31, 2021	3.33	595,000	595,000
\$0.10	December 21, 2022	4.89	1,650,000	1,350,000
			3,395,000	3,095,000

At January 31, 2018, the weighted average remaining contractual life of the stock options outstanding was 3.70 years.

On December 21, 2017, the Company’s board of directors granted 1,650,000 incentive stock options to its directors, officers, and a consultant. The stock options are exercisable at a price of \$0.10 per share for a period of five (5) years expiring on December 21, 2022. Any securities issued pursuant to the exercise of stock options are subject to a four-month hold period expiring on April 22, 2018.

The options issued to directors and officer of the Company vested immediately upon grant, and the Company recognized \$101,828 as share-based compensation associated with these options.

The fair value of the stock options granted to directors and officer was estimated using the Black-Scholes Option pricing model using the following assumptions:

	December 21, 2017
Expected life	5 years
Annualized volatility	153%
Risk-free interest rate	1.86%
Dividend yield	Nil

5. SHARE CAPITAL (CONTINUED)

Stock options (Continued)

The option to acquire up to 300,000 shares issued to a consultant vest over a period of 12 months at a rate of 75,000 options per quarter beginning on March 21, 2018. The Company recognized \$5,637 as share-based compensation associated with these options.

The fair value of the stock options granted to a consultant was estimated using the Black-Scholes Option pricing model as at December 21, 2017 and revalued at January 31, 2018, using the following assumptions:

	December 21, 2017	January 31, 2018
Expected life	5 years	5 years
Annualized volatility	153%	152%
Risk-free interest rate	1.86%	2.08%
Dividend yield	Nil	Nil

Share purchase warrants

The changes in the number of warrants outstanding during the six-month period ended January 31, 2018, and for the year ended July 31, 2017 are as follows:

	Six months ended January 31, 2018		Year ended July 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	2,317,600	\$ 0.10	3,820,667	\$ 0.14
Warrants expired	-	-	(1,424,667)	(0.20)
Warrants exercised	(300,000)	(0.10)	(78,400)	(0.10)
Warrants outstanding, ending	2,017,600	\$ 0.10	2,317,600	\$ 0.10

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

Exercise price	Expiry date	Remaining life (years)	Number of warrants outstanding
\$0.10	April 8, 2018	0.18	2,017,600

At January 31, 2018, the weighted average remaining contractual life of the warrants issued and outstanding was 0.18 years.

Share-based payment reserve

The share-based payment reserve includes items recognized as share-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amounts are transferred to share capital.

6. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, key management personnel, close family members and enterprises that are controlled by these individuals. Key management personnel are those having authority and responsibility for planning and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

KESSEL RUN RESOURCES LTD.
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

6. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company incurred the following transactions with related parties, including key management personnel that are not disclosed elsewhere in the financial statements:

	Six months ended January 31,	
	2018	2017
Exploration and evaluation expenditures incurred to a private company controlled by certain directors and officers of the Company (Note 3)	\$ 384,933	\$ 709,156
Interest expense accrued on notes payable issued to a private company controlled by certain directors and officers of the Company	\$ 11,941	\$ 833
Project investigation costs incurred to a private company controlled by certain directors and officers of the Company	\$ -	\$ 1,150
Accounting, consulting, and administrative fees incurred to a private company controlled by an officer of the Company	\$ 36,000	\$ 36,000

Amounts due to related parties consist of amounts owed directly to the officers and directors of the Company and to private companies controlled by the officers and directors of the Company. These amounts are unsecured, non-interest bearing and due on demand. At January 31, 2018, the amount payable to related parties was \$268,482 (July 31, 2017 - \$97,364).

At January 31, 2018, the Company was indebted to Fladgate Exploration Consulting Corporation (“Fladgate”), a privately-held corporation controlled by certain directors and officers of the Company, in the amount of \$303,092 (July 31, 2017 - \$291,151) under the notes payable the Company issued to Fladgate during the year ended July 31, 2017 (the “Loans”). The Loans are unsecured, due on demand and accumulate interest at a rate of 8% per annum compounded monthly.

7. SUBSEQUENT EVENTS

Subsequent to January 31, 2018, the Company sold 200,000 FM Shares for cash proceeds of \$84,207.