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TSX-V: KES

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

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

The accompanying unaudited condensed interim financial statements of Kesselrun Resources Ltd. (the “Company”) for the three months ended October 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	October 31, 2018	July 31, 2018
(Unaudited)			
ASSETS			
Current			
Cash		\$ 69,646	\$ 49,025
GST receivable		33,324	29,662
Prepaid expenses		9,103	10,500
Marketable securities	4	1,150,500	1,739,130
Total current		1,262,573	1,828,317
Exploration and evaluation assets	3	2,474,966	2,474,966
Total assets		\$ 3,737,539	\$ 4,303,283
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable		\$ 452	\$ 470
Accrued liabilities		14,381	14,468
Due to related parties	6	334,203	317,256
Note payable	6	86,427	84,708
Total liabilities		435,463	416,902
Shareholders' equity			
Share capital	5	5,998,427	5,998,427
Share-based payment reserve	5	560,426	560,634
Deficit		(3,256,777)	(2,672,680)
Total shareholders' equity		3,302,076	3,886,381
Total liabilities and shareholders' equity		\$ 3,737,539	\$ 4,303,283

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 LOSS
 Unaudited - Prepared by Management
 (Expressed in Canadian Dollars)

	Note	Three months ended October 31,	
		2018	2017
Expenses:			
Accounting and audit	6	\$ 6,000	\$ 9,770
Administration	6	6,000	6,000
Advertising and promotion		-	40,365
Consulting	6	23,500	21,000
Filing fees		903	2,895
Management fees	6	15,000	-
Meals and entertainment		49	376
Office expenses		549	988
Share-based compensation	5	(208)	-
Travel		-	3,121
Total expenses		(51,793)	(84,515)
Other items			
Interest on note payable	6	(1,719)	(5,910)
Loss on investment	4	(12,860)	-
Unrealized loss on investment	4	(517,725)	-
Loss and comprehensive loss		\$ (584,097)	\$ (90,425)
Loss per share, basic and diluted		\$ (0.02)	\$ (0.00)
Weighted average number of common shares outstanding		37,763,483	36,963,483

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

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

	Note	Number of Shares	Share Capital	Share-based Payment Reserve	Deficit	Total
Balance, July 31, 2017		36,963,483	\$ 5,918,427	\$ 438,910	\$ (1,472,350)	\$ 4,884,987
Net and comprehensive loss		-	-	-	(90,425)	(90,425)
Balance, October 31, 2017		36,963,483	5,918,427	438,910	(1,562,775)	4,794,562
Exercise of warrants		800,000	80,000	-	-	80,000
Share-based compensation		-	-	121,724	-	121,724
Net and comprehensive loss		-	-	-	(1,109,905)	(1,109,905)
Balance, July 31, 2018		37,763,483	5,998,427	560,634	(2,672,680)	3,886,381
Share-based compensation	5	-	-	(208)	-	(208)
Net and comprehensive loss		-	-	-	(584,097)	(584,097)
Balance, October 31, 2018		37,763,483	\$ 5,998,427	\$ 560,426	\$ (3,256,777)	\$ 3,302,076

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

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

	Three Months Ended October 31,	
	2018	2017
Cash flows used in operating activities		
Loss for the period	\$ (584,097)	\$ (90,425)
Items not affecting cash used in operations		
Accrued interest	1,719	5,910
Share-based compensation	(208)	-
Loss on investment	530,585	-
Changes in non-cash working capital items		
GST receivables	(3,662)	(32,246)
Prepaid expenses	1,397	33,912
Accounts payable	(18)	(1,833)
Accrued liabilities	(87)	3,095
Net cash used in operating activities	(54,371)	(81,587)
Cash flows generated by (used in) investing activities		
Exploration and evaluation assets	-	(384,933)
Cash received from sale of marketable securities	58,045	-
Net cash generated by (used in) investing activities	58,045	(384,933)
Cash flows provided by financing activities		
Due to related parties	16,947	301,277
Net cash provided by financing activities	16,947	301,277
Increase (decrease) in cash	20,621	(165,243)
Cash, beginning	49,025	240,974
Cash, ending	\$ 69,646	\$ 75,731

The accompanying notes are an integral part of these audited 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 October 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 October 31, 2018, the Company held 3,835,000 common shares of First Mining Finance Corp. (“First Mining”) valued at \$1,150,500 (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, 2018.

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 October 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:

Exploration and evaluation assets at October 31, 2018 and July 31, 2018

	Bluffpoint	Huronian	Total
Acquisition costs, July 31, 2018 and October 31, 2018	\$ 244,060	\$ 1,084,966	\$ 1,329,026
Deferred exploration costs, July 31, 2018 and October 31, 2018	409,355	736,585	1,145,940
Total exploration and evaluation assets, July 31, 2018 and October 31, 2018	\$ 653,415	\$ 1,821,551	\$ 2,474,966

3. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Exploration and evaluation assets at July 31, 2018

	Bluffpoint	Huronian	Total
Acquisition costs, July 31, 2018 and 2017	\$ 244,060	\$ 1,084,966	\$ 1,329,026
Deferred exploration costs, July 31, 2017	409,355	350,035	759,390
Additions:			
Assaying	-	9,773	9,773
Camp and travel	-	36,525	36,525
Claim maintenance	-	1,617	1,617
Equipment	-	156,935	156,935
Geology	-	181,700	181,700
Deferred exploration costs, July 31, 2018	409,355	736,585	1,145,940
Total exploration and evaluation assets, July 31, 2018	\$ 653,415	\$ 1,821,551	\$ 2,474,966

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 \$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.

Huronian Gold Project

The Company holds a 100% interest in the Huronian Gold Project (the “Huronian Project”) consisting of 157 claims located in Moss Township, Thunder Bay Mining Division, Ontario.

Huronian Project is subject to the following NSR:

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.

During the year ended July 31, 2017, the Company acquired a 100% interest in a mining claim adjacent to the Huronian Project. In consideration for the purchase, the Company paid \$20,000 cash and issued 200,000 shares of its common stock 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").

At initial recognition, the Company recorded \$3,102,000 as fair market value of the FM Shares. During the three-month period ended October 31, 2018, the Company sold 163,000 FM Shares for total cash proceeds of \$58,045. The Company realized a \$12,860 loss on the sale of the FM Shares.

At October 31, 2018, the investment in FM Shares was valued at \$1,150,500 based on the closing share price of \$0.30. The Company records its marketable securities as Fair Value through Profit or Loss ("FVTPL"). During the three-month period ended October 31, 2018, the Company recorded a \$517,725 loss on revaluation of its securities to their fair market value (2018 - \$Nil).

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 three-month period ended October 31, 2018, the Company did not have any transactions that resulted in issuance of its common stock.

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 three-month period ended October 31, 2018 and for the year ended July 31, 2018 is as follows:

	Three months ended October 31, 2018		Year ended July 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	3,245,000	\$ 0.09	1,845,000	\$ 0.10
Options granted	-	n/a	1,650,000	0.10
Options cancelled or expired	-	n/a	(250,000)	(0.29)
Options outstanding, ending	3,245,000	\$ 0.09	3,245,000	\$ 0.09
Options exercisable, ending	3,170,000	\$ 0.09	3,095,000	\$ 0.09

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

Exercise price	Expiry date	Remaining life (years)	Number of options outstanding	Number of options exercisable
\$0.05	March 26, 2020	1.65	700,000	700,000
\$0.06	April 13, 2021	2.70	300,000	300,000
\$0.11	May 31, 2021	2.84	595,000	595,000
\$0.10	December 21, 2022	4.39	1,650,000	1,575,000
			3,245,000	3,170,000

5. SHARE CAPITAL (CONTINUED)

Stock options (Continued)

At October 31, 2018, the weighted average remaining contractual life of the stock options outstanding was 3.11 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. 1,350,000 options issued to directors and officers of the Company vested immediately upon grant, and the Company recognized \$101,828 as share-based compensation associated with these options. The option to acquire up to 300,000 shares issued to a consultant vests over a period of 12 months at a rate of 75,000 options per quarter beginning on March 21, 2018. During the three-month period ended October 31, 2018, the Company recognized a recovery of \$208 associated with these options, which was associated with a decrease of the Company’s share price.

The fair value of the stock options granted to a consultant was initially estimated using the Black-Scholes Option pricing model as at December 21, 2017, and is being revalued using the Black-Scholes Option pricing model at each reporting date and at each vesting date. The Company used the following assumptions:

	December 21, 2017	October 31, 2018
Expected life	5 years	4.14-4.25 years
Annualized volatility	153%	155% - 157%
Risk-free interest rate	1.86%	2.33%-2.42%
Dividend yield	Nil	Nil

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.

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

	Three months ended October 31,	
	2018	2017
Exploration and evaluation expenditures incurred to a private company controlled by certain directors and officers of the Company	\$ -	\$ 384,933
Accounting, consulting, and administrative fees incurred to a private company controlled by an officer of the Company	\$ 18,000	\$ 18,000
Management fees incurred to a private company controlled by an officer of the Company	\$ 15,000	\$ -

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 October 31, 2018, the amount payable to related parties was \$334,203 (July 31, 2018 - \$317,256).

6. RELATED PARTY TRANSACTIONS (CONTINUED)

At October 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 \$86,427 (July 31, 2018 - \$84,708) under the note payable the Company issued to Fladgate during the year ended July 31, 2017 (the “Loan”). The Loan is unsecured, due on demand and accumulates interest at a rate of 8% per annum compounded monthly. During the three-month period ended October 31, 2018, the Company accrued \$1,719 in interest (2017 - \$5,910).