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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 AND SIX MONTHS ENDED  
JANUARY 31, 2017 & 2016**

**NOTICE OF NO AUDITOR REVIEW  
OF THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2017 & 2016**

The accompanying unaudited condensed interim financial statements of Kesselrun Resources Ltd. (the “Company”) for the period ended January 31, 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.

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

	Note	<b>January 31, 2017</b>	<b>July 31, 2016</b>
<b>(unaudited)</b>			
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 229,860	\$ 536,370
GST receivable		112,679	13,880
Prepaid expenses		5,160	25,593
<b>Total current</b>		<b>347,699</b>	<b>575,843</b>
Exploration and evaluation assets	3,6	2,064,662	1,354,553
Debentures receivable	4	1	1
<b>Total assets</b>		<b>\$ 2,412,362</b>	<b>\$ 1,930,397</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable		\$ 56,675	\$ 7,554
Accrued liabilities		-	25,874
Due to related parties	6	191,803	1,238
Note payable	6	200,833	-
<b>Total liabilities</b>		<b>449,311</b>	<b>34,666</b>
<b>Shareholders' equity</b>			
Share capital	5	5,894,427	5,881,940
Share-based payment reserve	5	427,538	442,639
Deficit		(4,358,914)	(4,428,848)
<b>Total shareholders' equity</b>		<b>1,963,051</b>	<b>1,895,731</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,412,362</b>	<b>\$ 1,930,397</b>

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 financial statements



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

	Note	Three months ended January 31,		Six months ended January 31,	
		2017	2016	2017	2016
<b>Expenses:</b>					
Accounting and audit	6	\$ 6,000	\$ 6,000	\$ 15,370	\$ 10,140
Administration	6	6,000	6,000	12,000	12,000
Advertising and promotion		159	-	846	-
Consulting	6	21,000	21,000	67,875	42,000
Filing fees		7,590	4,073	10,318	6,066
Legal fees		5,958	-	33,816	-
Meals and entertainment		2,105	-	3,237	-
Office expenses		4,325	768	6,052	2,032
Project investigation costs	6	-	-	1,150	-
Share-based compensation	5	14,199	1,462	(10,454)	1,346
Travel		3,624	-	3,846	-
<b>Total expenses</b>		<b>(70,960)</b>	<b>(39,303)</b>	<b>(144,056)</b>	<b>(73,584)</b>
<b>Other income</b>					
Interest income	4	213,990	101,900	213,990	101,900
<b>Income and comprehensive income for the period</b>		<b>\$ 143,030</b>	<b>\$ 62,597</b>	<b>\$ 69,934</b>	<b>\$ 28,316</b>
<b>Income per share, basic and diluted</b>		<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
Weighted average number of common shares outstanding - basic:		36,763,483	24,835,750	36,749,848	24,835,750
Weighted average number of common shares outstanding - diluted:		42,868,250	26,735,750	42,854,615	26,735,750

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)

	<b>Six Months Ended January 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows used in operating activities</b>		
Income for the period	\$ 69,934	\$ 28,316
Items not affecting cash used in operations		
Accrued interest	833	-
Share-based compensation	(10,454)	1,346
Interest income earned	(213,990)	(101,900)
Changes in non-cash working capital items		
GST receivable	(98,799)	(435)
Prepaid expenses	20,433	(2,801)
Accounts payable	49,121	2,692
Accrued liabilities	(25,874)	(8,877)
Due to related parties	190,565	(70)
Net cash used in operating activities	(18,231)	(81,729)
<b>Cash flows generated by (used in) investing activities</b>		
Exploration and evaluation assets	(710,109)	-
Interest received from debentures	213,990	101,900
Net cash generated by (used in) investing activities	(496,119)	101,900
<b>Cash flows provided by financing activities</b>		
Exercise of warrants	7,840	-
Notes payable	200,000	-
Net cash provided by financing activities	207,840	-
Increase (decrease) in cash	(306,510)	20,171
Cash, beginning	536,370	135,558
Cash, ending	\$ 229,860	\$ 155,729

The accompanying notes are an integral part of these interim 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
<b>Balance, July 31, 2015</b>		24,835,750	\$ 4,255,313	\$ 289,232	\$ (4,170,034)	\$ 374,511
Share-based compensation		-	-	1,346	-	1,346
Net and comprehensive income for the period		-	-	-	28,316	28,316
<b>Balance, January 31, 2016</b>		24,835,750	4,255,313	290,578	(4,141,718)	404,173
Private placements		7,849,333	677,400	-	-	677,400
Flow-through share premium liabilities		-	(17,780)	-	-	(17,780)
Share issuance costs – cash		-	(61,377)	-	-	(61,377)
Share issuance costs – warrants		-	(11,616)	11,616	-	-
Shares issued for property		4,000,000	1,040,000	-	-	1,040,000
Share-based compensation		-	-	140,445	-	140,445
Net and comprehensive loss for the period		-	-	-	(287,130)	(287,130)
<b>Balance, July 31, 2016</b>		36,685,083	5,881,940	442,639	(4,428,848)	1,895,731
Exercise of warrants	5	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
<b>Balance, January 31, 2017</b>		36,763,483	\$ 5,894,427	\$ 427,538	\$ (4,358,914)	\$ 1,963,051

The accompanying notes are an integral part of these interim 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, 2017, 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. These factors indicate the existence of material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

The Company’s head office and principal address is 1158 Russell Street, Unit D, Thunder Bay, ON P7B 5N2.

## 2. BASIS OF PRESENTATION

### 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, 2016.

### 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, 2017, the Company’s interest in exploration and evaluation assets consisted of its main exploration project, the Bluffpoint Property and its newly acquired project, 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)**

<b>Exploration and evaluation assets at January 31, 2017</b>			
	<b>Bluffpoint</b>	<b>Huronian</b>	<b>Total</b>
Acquisition costs, July 31, 2016	\$ 596,230	\$ 1,040,000	\$ 1,636,230
Additions during the period	-	953	953
Acquisition costs, January 31, 2017	596,230	1,040,953	1,637,183
Deferred exploration costs, July 31, 2016	1,712,414	-	1,712,414
Additions during the period:			
Assaying	19,690	16,262	35,952
Camp and travel	38,177	47,650	85,827
Equipment use / rental	113,385	112,845	226,230
Geology	196,747	164,400	361,147
Deferred exploration costs, January 31, 2017	2,080,413	341,157	2,421,570
Impairment	(1,994,091)	-	(1,994,091)
<b>Total exploration and evaluation assets, January 31, 2017</b>	<b>\$ 682,552</b>	<b>\$ 1,382,110</b>	<b>\$ 2,064,662</b>

<b>Exploration and evaluation assets at July 31, 2016</b>			
	<b>Bluffpoint</b>	<b>Huronian</b>	<b>Total</b>
Acquisition costs, July 31, 2015	\$ 592,170	\$ -	\$ 592,170
Additions during the year	4,060	1,040,000	1,044,060
Acquisition costs, July 31, 2016	596,230	1,040,000	1,636,230
Deferred exploration costs, July 31, 2015	1,641,921	-	1,641,921
Additions during the year:			
Camp and travel	11,763	-	11,763
Equipment use / rental	11,762	-	11,762
Geology	46,968	-	46,968
Deferred exploration costs, July 31, 2016	1,712,414	-	1,712,414
Impairment	(1,994,091)	-	(1,994,091)
<b>Total exploration and evaluation assets, July 31, 2016</b>	<b>\$ 314,553</b>	<b>\$ 1,040,000</b>	<b>\$ 1,354,553</b>

**Bluffpoint Project**

Through series of option agreements, the Company has exercised an option to acquire 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”). Upon closing, the optionor was appointed a director and officer of the Company. The significant terms of the option agreements are as follows:

The Company was required to make cash payments and issue common shares as follows:



### 3. EXPLORATION AND EVALUATION ASSETS (continued)

#### **Bluffpoint Project** (continued)

- On July 18, 2012 (the “Closing Date”) issue 2,000,000 common shares (issued with a fair value of \$200,000); and
- Make cash payment of \$200,000 (paid) and issue 2,000,000 common shares (issued with a fair value of \$100,000) on or before April 30, 2014.

The optionor assigned two thirds of his interest in the agreements to two other individuals – one of these individuals is a director of the Company.

The Bluffpoint Project is subject to a royalty payable to the optionors equal 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; leaving the optionors with a final 1% NSR. 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.

During the year ended July 31, 2016, the Company resumed its exploration activities on the Bluffpoint Project which continued through to November 30, 2016, resulting in \$367,999 recorded as deferred exploration costs on the Bluffpoint Project.

#### **Huronian Gold Project**

On June 28, 2016, the Company entered into a purchase agreement to acquire a 100% interest in the Huronian Gold Project (“Huronian Project”) from Chalice Gold Mines Limited (“Chalice”) and its wholly owned subsidiary, Coventry Resources Ontario Inc., and Pele Mountain Resources Inc. (“Pele”) and its wholly-owned subsidiary, Pele Gold Corporation (the “Transaction”).

In consideration for the purchase, the Company agreed to issue Chalice 2,040,000 and Pele 1,960,000 shares of the Company’s common stock for a total of 4,000,000 common shares, which share issuances 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 were valued at \$0.26 per share for a total fair value of \$1,040,000.

Huronian Project is subject to net smelter return royalties (“NSR”) as detailed in the table below:

<b>Township/Area</b>	<b>Claim Type</b>	<b>Claims</b>	<b>Area (ha)</b>	<b>Total NSR</b>
Moss	Unpatented	96	3,520.0	2.00%
Moss	Unpatented	57	1,120.0	2.50%
Moss	Patented	2	274.8	2.00%
Moss	Patented	2	129.5	2.50%
<b>Total</b>		<b>157</b>	<b>5,044.3</b>	

The Company retains a right to purchase up to 50% of the NSR by paying Chalice up to \$1,020,000 and Pele up to \$980,000, for a total of 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.

In September 2016 the Company commenced exploration of Huronian Project, resulting in \$341,157 recorded as deferred exploration costs on the Huronian Project.

**4. DEBENTURES RECEIVABLE**

The Company holds a \$2,000,000 senior unsecured convertible debenture (the “Debenture”) of Tamaka Gold Corporation (“Tamaka”). Since the market value of the Debenture cannot be reasonably estimated, it was recorded as \$1, its estimated fair value.

The Debenture is due on August 15, 2021, earns interest at a fixed rate of 10% per annum compounded annually and is unsecured. At the election of Tamaka, up to 50% of the interest may be paid by the issuance of additional debentures of Tamaka. The Debenture is subject to certain restrictions on transfer and a right of first refusal in favour of Tamaka.

The table below lists the interest payments the Company has received on the Debenture:

Payment Date	Debenture, Principal	Interest Payment Received	
		Cash	Debenture
December 31, 2014	\$ 2,000,000	\$ 38,164	\$ 38,000
December 31, 2015	2,038,000	101,900	101,900
December 31, 2016	2,139,900	213,990	-
<b>Total</b>	<b>\$ 2,139,900</b>	<b>\$ 354,054</b>	<b>\$ 139,900</b>

Due to uncertainty in collectability of the future interest payments, the Company does not accrue the interest income associated with the Debentures and records it upon receipt of funds.

On June 17, 2016, Tamaka became a wholly-owned subsidiary of First Mining Finance Corp. (“First Mining”) (the “Acquisition”). Under the terms of the Debentures, a change of control of Tamaka results in an automatic conversion of the Debentures into common shares of Tamaka effective immediately prior to the closing of the Acquisition. First Mining has asserted that no change of control has occurred. On October 11, 2016, the Company filed a Notice of Application with the Ontario Superior Court of Justice in connection with the Debentures totalling \$2,237,540, consisting of \$2,139,900 principal and \$97,640 interest accrued up to June 16, 2016, against Tamaka and First Mining. The Company is of the opinion that it is probable that the claim will be ruled in the Company’s favour and the Company will be awarded shares of First Mining.

**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, 2017, the Company issued 78,400 shares of its common stock on exercise of broker warrants at \$0.10 per share for gross proceeds of \$7,840.

**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.

On April 13, 2016, the Company granted 300,000 stock options to its consultant at a price of \$0.06 per share expiring April 13, 2021. The options vest over a period of 12 months at a rate of 75,000 options per quarter beginning on July 13, 2016. At January 31, 2017, due to the decrease in market price of the Company’s common stock the Company recorded a recovery of share-based compensation of \$8,680 associated with these options.

**5. SHARE CAPITAL** (continued)

**Stock options** (continued)

On May 31, 2016, the Company granted 595,000 stock options to its consultant at a price of \$0.11 per share expiring May 31, 2021. The options vest over a period of 12 months at a rate of 148,750 options per quarter beginning on August 31, 2016. At January 31, 2017, due to the decrease in market price of the Company's common stock, the Company recorded a recovery of share-based compensation of \$1,774 associated with these options.

A summary of the changes in the number of stock options outstanding during the six-month period ended January 31, 2017 and for the year ended July 31, 2016 is as follows:

	<b>Six months ended January 31, 2017</b>		<b>Year ended July 31, 2016</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Options outstanding, beginning	2,895,000	\$ 0.10	2,000,000	\$ 0.18
Options granted	-	-	1,045,000	0.09
Options cancelled or expired	(160,000)	(0.10)	(150,000)	(0.60)
Options outstanding, ending	2,735,000	\$ 0.10	2,895,000	\$ 0.10
Options exercisable, ending	2,362,500	\$ 0.10	2,075,000	\$ 0.10

Details of options outstanding as at January 31, 2017 are as follows:

<b>Exercise price</b>	<b>Expiry date</b>	<b>Remaining life (years)</b>	<b>Number of options outstanding</b>	<b>Number of options exercisable</b>
\$0.10	July 18, 2017	0.46	890,000	890,000
\$0.60	December 5, 2017	0.84	100,000	100,000
\$0.05	March 26, 2020	3.15	700,000	700,000
\$0.06	April 13, 2021	4.20	300,000	225,000
\$0.08	May 3, 2018	1.25	150,000	150,000
\$0.11	May 31, 2021	4.33	595,000	297,500
			2,735,000	2,362,500

At January 31, 2017, the weighted average remaining contractual life of the stock options outstanding was 2.46 years.

**Share purchase warrants**

The changes in the number of warrants outstanding during the six-month period ended January 31, 2017 and for the year ended July 31, 2016 are as follows:

	<b>Six months ended January 31, 2017</b>		<b>Year ended July 31, 2016</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price</b>	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Warrants outstanding, beginning	3,820,667	\$ 0.14	-	\$ -
Warrants granted	-	-	3,820,667	0.14
Warrants exercised	(78,400)	0.10	-	-
Warrants outstanding, ending	3,742,267	\$ 0.14	3,820,667	\$ 0.14

**5. SHARE CAPITAL** (continued)

**Share purchase warrants** (continued)

Details of share purchase warrants outstanding as at January 31, 2017 are as follows:

Exercise price	Expiry date	Remaining life (years)	Number of warrants outstanding
\$0.10	April 08, 2018	1.18	2,317,600
\$0.20	June 14, 2017	0.37	1,424,667
			3,742,267

At January 31, 2017, the weighted average remaining contractual life of the warrants issued and outstanding was 0.87 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.

At January 31, 2017, the Company transferred \$4,647 to share capital, which was associated with exercise of broker warrants issued as part of April 8, 2016, private placement.

**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:

	Six months ended January 31,	
	2017	2016
Exploration and evaluation expenditures incurred to a private company controlled by certain directors and officers of the Company (Note 3)	\$ 709,156	\$ -
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, 2017, the amount payable to related parties was \$191,803 (July 31, 2016 - \$1,238).

On December 22, 2016, the Company entered into a loan agreement (the "Loan Agreement") with Fladgate Exploration Consulting Corporation, a company controlled by certain directors and officers of the Company, for a loan in the principal amount of \$200,000 (the "Loan"). Due to the delay in receiving the funds contemplated under the Loan Agreement, the Company and Fladgate agreed to amend the date of the Loan Agreement to January 12, 2017. The Loan is unsecured, due on demand and accumulates interest at a rate of 8% per annum. As at January 31, 2017, the Company accrued \$833 in interest expense associated with the Loan.

**7. SUBSEQUENT EVENT**

On February 15, 2017, the Company entered into a purchase agreement with an arms-length party to acquire a 100% interest in a key mining claim (the “Claim”) adjacent to the Company’s Huronian Gold Project. In consideration for the purchase, Kesselrun has agreed to issue the vendor of the Claim 200,000 common shares of Kesselrun and make a one-time payment of \$20,000. The acquisition was approved by TSX-V on March 1, 2017, and the shares were issued on March 3, 2017.