



# Kettle River Resources Ltd.

(An Exploration Stage Company)

## **INTERIM FINANCIAL STATEMENTS**

**3<sup>rd</sup> quarter  
January 31, 2009**

**(Unaudited – Prepared by Management)**

### **Note to Reader**

These interim financial statements for the nine months ended January 31, 2009 have been prepared by management and have not been subject to review by the Company's auditors.

**KETTLE RIVER RESOURCES LTD.***(An Exploration Stage Company)***Interim Balance Sheet***Canadian Funds**Unaudited – Prepared by Management*

Statement 1

	January 31, 2009	April 30, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,287	\$ 729,679
Accrued interest and other amounts receivable	12,609	13,993
Marketable securities (Note 3)	196,084	329,777
Prepaid expenses	1,946	4,517
	<u>211,926</u>	<u>1,077,966</u>
<b>Reclamation Bond</b>	<b>5,000</b>	5,000
<b>Property, Plant and Equipment</b> (Note 4)	<b>61,604</b>	63,743
<b>Mineral Properties</b> (Note 5)	<b>3</b>	3
Cash and cash equivalents	\$ 278,533	\$ 1,146,712
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Cheques written in excess of funds on hand	\$ 5,972	\$ -
Accounts payable and accrued liabilities	17,112	31,982
Shareholders' and directors' loans (Note 7)	25,375	4,059
	<u>48,459</u>	<u>36,041</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Deficit accumulated in the exploration stage</b>		
– Statement 2 (Statement of Loss)	(13,815,825)	(13,035,257)
<b>Accumulated Other Comprehensive Income</b>	<b>121,986</b>	255,679
	<u>(13,693,839)</u>	<u>(12,779,578)</u>
<b>Share capital</b> (Note 6)	<b>13,067,642</b>	13,064,442
<b>Contributed Surplus</b> (Note 6 f)	<b>856,271</b>	825,807
	<u>230,074</u>	<u>1,110,671</u>
	<u>\$ 278,533</u>	<u>\$ 1,146,712</u>

ON BEHALF OF THE BOARD:

*"Ellen Clements"*

Ellen Clements, Director

*"Larry Widmer"*

Larry Widmer, Director

See accompanying notes to financial statements

**KETTLE RIVER RESOURCES LTD.**

Statement 2

*(An Exploration Stage Company)***Interim Statement of Loss, Comprehensive Loss and Deficit***Canadian Funds**Unaudited – Prepared by Management*

	For three months ended		For nine months ended	
	January 31,		January 31,	
	2009	2008	2009	2008
<b>MINERAL EXPLORATION ACTIVITIES</b>				
Exploration costs	\$ 3,896	\$ 393,965	\$ 632,278	\$ 1,183,525
Less: Government Assistance	-	-	-	-
	<b>3,896</b>	<b>393,965</b>	<b>632,278</b>	<b>1,183,525</b>
<b>ADMINISTRATIVE COSTS</b>				
Accounting, audit & legal	7,744	10,366	21,908	36,559
Advertising, promotion & printing	628	5,635	12,100	21,476
Amortization	90	112	271	338
Financial consulting	-	2,500	1,250	7,500
Licenses, insurance, and transfer agent fees	4,859	5,070	16,937	36,373
Management, salary & wages (net of recoveries)	16,987	16,682	40,718	43,320
Office & sundry	1,173	2,128	4,508	10,481
Office building expenses	1,808	1,465	5,534	4,279
Stock compensation expense	-	17,136	30,464	51,407
Telephone	744	1,060	1,824	1,971
Travel and accommodation	7,436	10,714	17,624	21,087
	<b>41,469</b>	<b>72,868</b>	<b>153,138</b>	<b>234,791</b>
<b>OTHER EXPENSES (INCOME)</b>				
Interest and US Exchange adjustment	(63)	(4,341)	(4,848)	(7,652)
Proceeds from Naket settlement (Note 5e)	-	-	-	(23,312)
	<b>(63)</b>	<b>(4,341)</b>	<b>(4,848)</b>	<b>(30,964)</b>
<b>GAIN (LOSS) FOR THE PERIOD</b>	<b>(45,302)</b>	<b>(462,492)</b>	<b>(780,568)</b>	<b>(1,387,352)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>\$ 13,770,523</b>	<b>\$ 12,622,423</b>	<b>\$ 13,035,257</b>	<b>\$ 11,697,563</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 13,815,825</b>	<b>\$ 13,084,915</b>	<b>\$ 13,815,825</b>	<b>\$ 13,084,915</b>
<b>Gain (Loss) per share, basic and diluted</b>	<b>(\$0.01)</b>	<b>(\$0.02)</b>	<b>(\$0.03)</b>	<b>(\$0.06)</b>
<b>Weighted average number of Shares outstanding</b>	<b>27,716,711</b>	<b>27,326,575</b>	<b>27,716,711</b>	<b>22,379,050</b>
<b>OTHER COMPREHENSIVE LOSS</b>				
Net Loss for the Period	(45,302)	(462,492)	(780,568)	(1,387,352)
Unrealized Gain (Loss) on Available-for-sale Marketable Securities ( Note 3 )	(115,868)	80,216	(133,693)	362,635
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>161,170</b>	<b>382,276</b>	<b>914,261</b>	<b>1,024,717</b>
<b>Comprehensive Loss per share, basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of Shares outstanding</b>	<b>27,716,711</b>	<b>27,326,575</b>	<b>27,716,711</b>	<b>22,379,050</b>

See accompanying notes to financial statements.

**KETTLE RIVER RESOURCES LTD.**

Statement 3

*(An Exploration Stage Company)***Interim Statement of Cash Flows***Canadian Funds**Unaudited – Prepared by Management*

	For three months ended		For nine months ended	
	January 31,		January 31,	
	2009	2008	2009	2008
<b>Cash Flows from Operating Activities</b>				
Gain (Loss) for the period	\$ (45,302)	\$ (462,292)	\$ (780,568)	\$ (1,387,352)
Add: Items not involving cash				
Amortization	713	801	2,139	3,401
Stock compensation	-	17,136	30,464	51,407
	<u>(44,589)</u>	<u>(444,555)</u>	<u>(747,965)</u>	<u>(1,333,544)</u>
Changes in non-cash working capital items:				
Decrease (increase) in prepaid amounts	2,245	1,759	2,571	1,928
Decrease (increase) in accounts receivable	3,508	(133,770)	1,384	(266,153)
Increase (decrease) in amounts due to director(s)	23,046	(4,146)	21,316	(360,490)
Increase (decrease) in Loan payable	-	-	-	(304,853)
Increase (decrease) in accounts payable	(3,304)	9,921	(14,870)	(49,074)
	<u>(19,094)</u>	<u>(570,791)</u>	<u>(737,564)</u>	<u>(2,312,186)</u>
<b>Cash Flows from Financing Activities</b>				
Shares issued for cash	-	413,750	-	2,795,450
Cancellation of unclaimed finders fee	3,200	-	3,200	-
	<u>3,200</u>	<u>413,750</u>	<u>3,200</u>	<u>2,795,450</u>
<b>Cash Flows from Investing Activities</b>				
<b>Increase (decrease) in Cash</b>	<b>(15,894)</b>	<b>(157,041)</b>	<b>(734,364)</b>	<b>483,264</b>
<b>Cash, and term deposits, beginning of period</b>	<b>11,209</b>	<b>697,707</b>	<b>729,679</b>	<b>57,402</b>
<b>Cash and term deposits, end of period</b>	<b>\$ (4,685)</b>	<b>\$ 540,666</b>	<b>\$ (4,685)</b>	<b>\$ 540,666</b>
Cash and Term deposits represent by				
Cash on hand	1,287	140,666	1,287	140,660
Guaranteed investment certificate	-	400,000	-	400,000
Cheques written in excess of funds on hand	(5,972)	-	(5,972)	-
	<u>(4,685)</u>	<u>540,666</u>	<u>(4,685)</u>	<u>540,666</u>
Supplementary Schedule				
Amortization of capital assets to mineral properties	\$ 623	\$ 688	\$ 1,868	\$ 2,064
Non-monetary transactions				
Stock compensation	\$ -	\$ 17,136	\$ 30,464	\$ 51,407

See accompanying notes to financial statements.

# KETTLE RIVER RESOURCES LTD.

(An Exploration Stage Company)

## NOTES TO INTERIM FINANCIAL STATEMENTS

for the nine months ended January 31, 2009 and 2008

Canadian Funds Unaudited – Prepared by Management

### 1. GOING CONCERN

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These financial statements do not give effect to any adjustments that might be required should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts differing from those reflected in the financial statements. The Company has working capital of \$163,467 as at January 31, 2009 and has accumulated losses of \$13,815,825. Since inception, the Company has been successful in funding its operations and to date has net issued shares of 27,716,711 for net proceeds of \$13,067,642 averaging \$0.47 per share. The share price at January 31, 2009 was \$0.11 Cdn.

Management plans to continue to pursue equity financing to support operations. Management believes this plan will be sufficient to meet the Company's liabilities and commitments as they become payable over the next twelve months. There can be no assurance that management's plan will be successful. Failure to maintain the support of creditors and obtain additional external equity financing will cause the Company to curtail operations and the Company's ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting and reporting policies conform to generally accepted accounting principles in Canada. These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements as at April 30, 2008.

#### *International Financial Reporting Standards ("IFRS")*

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 3. MARKETABLE SECURITIES

	January 31, 2009	April 30, 2008
Securities of New Nadina Explorations Limited		
Opening balance – reclassified from investment	\$ 329,777	\$ 74,098
Unrealized gain (loss)	(133,693)	255,679
Closing balance – lowest recorded market price	\$ 196,084	\$ 329,777

The shares in New Nadina Explorations Limited ("New Nadina") previously accounted for using the equity method is now accounted for under the cost method. New Nadina has two directors in common with the Company. The Company on January 31, 2009, owned 1,782,582 New Nadina common shares. The quoted market value of the common shares was \$0.11 on January 31, 2009.

### 4. PROPERTY, PLANT AND EQUIPMENT

			January 31, 2009	April 30, 2008
	Amortization Rate	Cost	Accumulated Amortization	Net Book Value
Land		\$ 10,000	\$ -	\$ 10,000
Paving	8%	4,861	2,997	1,864
Buildings	4%-5%	86,401	39,191	47,210
Mining equipment	30%	117,557	116,561	996
Office equipment	20%	53,972	52,439	1,533
Trailer	30%	8,890	8,889	1
		\$ 281,681	\$ 220,077	\$ 61,604
				\$63,743

**KETTLE RIVER RESOURCES LTD.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**for the six months ended January 31, 2009 and 2008**

Canadian Funds

Unaudited – Prepared by Management

**5. MINERAL PROPERTIES**

Acquisition costs and exploration expenditures relating to mineral properties are written off as incurred. Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and are credited to reduce the cost of exploration expenditures related to the mineral claims with any excess, on an aggregate basis, recorded as income. Option payments are recorded as incurred. Ongoing reclamation and site restoration costs including site maintenance and caretaking are expensed when incurred.

Exploration Expenditures by Property For the period ended January 31, 2009	Greenwood Area	DHK NWT	Silica Quarry 50%	Total
Amortization	\$ 1,868	\$ -	\$ -	\$ 1,868
Assaying	31,190	-	-	31,190
Assessment, filing fees, membership	11,536	-	-	11,536
Direct charges – wages	20,835	740	125	21,700
Exploration costs 1)	529,930	7,745	-	537,675
Field Supplies	278	-	-	278
Property costs & acquisition	560	-	-	560
Storage (samples & equipment)	30,761	-	-	30,761
Property and Mineral taxes	1,517	-	-	1,517
Travel & accommodation	910	109	-	1,019
<i>Subtotal:</i>	<b>\$ 629,385</b>	<b>\$ 8,594</b>	<b>\$ 125</b>	<b>\$ 638,104</b>
Less: Recovered Property Costs	(5,826)	-	-	(5,826)
<b>TOTAL:</b>	<b>\$ 623,559</b>	<b>\$ 8,594</b>	<b>\$ 125</b>	<b>\$ 632,278</b>

Exploration Expenditures by Property For the period ended January 31, 2008	Greenwood Area	DHK NWT	Silica Quarry 50%	Total
Amortization	\$ 2,064	\$ -	\$ -	\$ 2,064
Assaying	48,273	-	-	48,273
Assessment, filing fees, membership	11,718	250	-	11,968
Direct charges – wages	27,000	7,600	75	34,675
Exploration costs 1)	369,424	716,887	-	1,086,311
Field Supplies	615	-	-	615
Property costs & acquisition	494	-	-	494
Storage (samples & equipment)	8,265	-	-	8,265
Property and Mineral taxes	1,578	-	-	1,578
Travel & accommodation	1,182	3,100	-	4,282
<i>Subtotal:</i>	<b>\$ 470,613</b>	<b>\$ 727,837</b>	<b>\$ 75</b>	<b>\$ 1,198,525</b>
Less: Recovered Property Costs	(15,000)	-	-	(15,000)
<i>Total:</i>	<b>\$ 455,613</b>	<b>\$ 727,837</b>	<b>\$ 75</b>	<b>\$ 1,183,525</b>

- 1) Exploration costs include equipment costs; freight/delivery expense; geology/geophysics/geochemical expenses; physical work, sampling, reclamation costs and allocation of office and overhead expenses relating to exploration activities.

The DHK exploration costs represent what the Company has paid for its share of all related exploration program costs on the WO and Pellatt Lake claim blocks in the Northwest Territories.

**a) GREENWOOD AREA - Southern BC:**

The Company owns a 100% interest in certain properties comprising approximately 10,000 hectares of mineral tenure where approximately 500 acres is surface owned in the Greenwood Mining Division of British Columbia. The Company is actively exploring for gold, silver, other base metals and industrial mineral potential. Properties within the Greenwood Area include Phoenix (Battle Zone), Bluebell (Minnie Moore), Phoenix Tailings, Haas Creek, Rad group, Arcadia (Skylark), Tam O'Shanter and Niagara.

**KETTLE RIVER RESOURCES LTD.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS (continued)**  
**for the six months ended January 31, 2009 and 2008**

Canadian Funds

Unaudited – Prepared by Management

**5. MINERAL PROPERTIES, continued**

**b) DHK DIAMONDS INC. – Northwest Territories:**

DHK Diamonds Inc. (“DHK”) is a private company incorporated and registered in the Northwest Territories, currently owned by Kettle River Resources Ltd. (43.37%), Dentonia Resources Ltd. (“Dentonia”) (43.37%), and Horseshoe Gold Mining Inc. (“Horseshoe”) (13.26%). Operations and funding provisions of DHK are governed by a 1992 Shareholders’ Agreement where each shareholder appoints two directors to the board and certain activities require 75% board approval.

**WO Joint Venture**

DHK has a 10.64% contributing interest in the WO Joint Venture operated by Peregrine Diamonds Ltd. (“Peregrine”).

**Pellatt Lake Property**

The Pellatt Lake claim block is located north of Yellowknife and in proximity of the Ekati Diamond Mine. DHK owns 100% interest in the Pellatt Lake Claim Block and is subject to an agreement with Peregrine Diamonds Ltd. Peregrine Diamonds Ltd. (Peregrine) can earn a 51% interest by drilling selected targets identified through the Falcon gravity gradiometer surveys. Once Peregrine vests with 51% of certain areas (those drilled), it has a second option to earn another 14% by completing a 100 tonne bulk sample within 4 years. A further 10% of a vested area can be earned by arranging production cost financing for DHK. Under the agreement, Peregrine pays all expenses with the exception of the annual fees on three mineral leases.

**Monument Property (formerly DHK Claim Block) south shore of Lac de Gras**

Through an agreement dated October 24, 2003 DHK Diamonds Inc. holds a 1% gross overriding royalty on three leases (7,747 hectares – 46,960 acres) explored for diamond potential, owned (57.49%) and operated by New Nadina Explorations Limited. During 2008, four new kimberlites were discovered. Including the Bling, Trio, Gemini and Sparky kimberlites there are now twelve known pipes on the Monument property. Micro diamond results from tested kimberlites have returned positive numbers to date with results pending from the summer program.

**c) SILICA QUARRY - Saskatchewan:**

The Company holds a 50% participating interest in a Silica Quarry Lease in Saskatchewan. The lease expires in December 2009. No income has been realized from this lease. This project is the subject of a joint venture and there are provisions for pro-rata dilution for non-contribution of costs.

**6. SHARE CAPITAL**

**a) Authorized:** 50,000,000 common shares without par value

**b) Issued and fully paid:**

	No. of Shares		Proceeds	Value
<b>Balance at April 30, 2007</b>	<b>14,223,611</b>			<b>\$ 10,880,739</b>
Private Placement closed August 2, 2007	5,233,100	(i)	1,011,700	723,619
Private Placement & Finders Fees - June 13, 2007	2,000,000	(ii)	379,000	363,898
Private Placement & Finders Fees – Sept 24, 2007	2,107,500	(iii)	411,000	313,564
Private Placement & Finders Fees – Oct 31, 2007	1,860,000	(iv)	425,000	326,320
Warrants exercised October 29, 2007	620,000	(v)	155,000	155,000
Warrants exercised November 13, 2007	662,500	(vi)	161,250	168,803
Warrants exercised November 26, 2007	990,000	(vii)	247,500	247,500
Warrants exercised January 16, 2008	20,000	(viii)	5,000	5,000
Flow Through share renunciation tax effect				(120,000)
<b>Balance at April 30, 2008</b>	<b>27,716,711</b>		<b>\$ 2,795,450</b>	<b>\$ 13,064,442</b>
Unclaimed prior year Finders fee cancelled	-		-	3,200
<b>Balance at January 31, 2009</b>	<b>27,716,711</b>		<b>\$ 2,795,450</b>	<b>\$ 13,067,642</b>

**KETTLE RIVER RESOURCES LTD.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**for the six months ended January 31, 2009 and 2007**  
*Canadian Funds*  
*Unaudited – Prepared by Management*

---

**6. SHARE CAPITAL - continued**

**b) Issued and fully paid: - continued**

- (i) The Non-Brokered Private Placement completed on August 2, 2007 resulted in the issuance of 5,233,100 shares, at a price of \$0.20 per unit, yielding \$1,011,700; allocated \$723,619 to shares and \$288,081 to warrants. All 5,233,100 warrants including 174,600 warrants issued as Finders fees were unexercised and expired on or before July 20, 2008.
- (ii) With respect to the Private Placement which closed June 13, 2007, the Company issued 2,000,000 “Flow Through” shares and 175,000 Broker warrants exercisable to purchase one common share of the Company at a price of \$0.20. After payment of a finders’ fee of \$21,000 the Company realized net proceeds of \$379,000. While 87,500 of the Broker warrants were exercised November 13, 2007 yielding \$17,500 the remaining 87,500 expired June 14, 2008.
- (iii) On September 4, 2007 the company announced the Non-Brokered Private Placement referenced in News Releases and TSX Venture final approval on September 24, 2007. Issued were 2,107,500 units that included 2,055,000 subscriber units and 52,500 Finders’ Fees units for total proceeds of \$411,000. Each unit contains one common share at \$0.20 and one non-transferable half warrant. Two half warrants are exercisable for two years from date of closing, to purchase a common share of the Company at a price of \$0.35. September 24, 2007, issued 1,516,000 units with four-month hold expired January. 25, 2008, with warrants expiring September 24, 2009. October 3, 2007, issued 591,500 units with four-month expiring February 4, 2008, with warrants expiring October 5, 2009. [Proceeds of \$411,000 were allocated \$313,564 to shares and \$97,436 to warrants (Note 6 (f))]. The four-month hold period on 1,516,000 expired January. 25, 2008 and on 591,500 expiring February 4, 2008.
- (iv) The Company closed the \$400,000 non-brokered private placement announced October 5, 2007 having received TSX Venture Exchange acceptance on October 31, 2007 with the issuance of 1,700,000 shares at \$0.25 per share and warrants exercisable at \$0.40 expiring October 5, 2009. In the event that the Company’s common shares trade at a closing price on the TSX Venture Exchange of greater than 60 cents per share for a period of 20 consecutive trading days, at any time after four months and one day subsequent to the closing date, an accelerated 30 day expiry date will be in effect. Finders' fees of 160,000 in units were paid. [Proceeds of \$425,000 were allocated \$326,320 to shares and \$98,680 to warrants (Note 6 (f))]. The four month hold period expiring March 14, 2008.
- (v) Warrants were exercised October 29, 2007:
  - At \$0.25 to issue 415,000 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on February 21, 2007
  - At \$0.25 to issue 205,000 common shares of the Company reserved in the private placement which was accepted for filing by the TSX Venture Exchange on December 1, 2005 and accepted amendment to re-pricing for filing by the TSX Venture Exchange on May 7, 2007
- (vi) Warrants were exercised November 13, 2007:
  - At \$0.25 to issue 575,000 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on December 1, 2005 and accepted amendment as to re-pricing on May 7, 2007.
  - At \$0.20 to issue 87,500 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on June 13, 2007.
- (vii) Warrants were exercised November 26, 2007:
  - At \$0.25 to issue 340,000 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on February 21, 2007.
  - At \$0.25 to issue 610,000 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on May 7, 2007.
  - At \$0.25 to issue 40,000 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on December 1, 2005 and accepted amendment as to reprising on May 7, 2007.
- (viii) Warrants were exercised January 16, 2008:
  - At \$0.25 to issue 20,000 common shares of the Company reserved in the private placement accepted for filing by the TSX Venture Exchange on February 21, 2007.

# KETTLE RIVER RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS (continued)

for the six months ended January 31, 2009 and 2007

Canadian Funds

Unaudited – Prepared by Management

### 6. SHARE CAPITAL – continued

#### c) Warrants:

	Number	Price/share	Value	Expiry
Issued December 5, 2005 (1)	1,530,000	\$0.25	\$382,500	December 4, 2007
Exercised Oct 26/07 to Nov 20/07	(1,430,000)	\$0.25	(357,500)	
Expired December 4, 2007	(100,000)		(25,000)	December 4, 2007
Issued June 14, 2007 (2)	175,000	\$0.20	\$35,000	June 14, 2008
Exercised Nov 13/07	(87,500)	\$0.20	(17,500)	
Expired June 14, 2008	(87,500)		(17,500)	June 14, 2008
Issued February 22, 2007 (3)	2,750,000	\$0.25	\$687,500	February 22, 2008
Exercised Oct 29/07 to Jan 16/08	(775,000)	\$0.25	(193,750)	
Expired Feb 22, 2008	(1,975,000)		(493,750)	February 22, 2008
Issued May 24, 2007 (4)	2,800,100	\$0.30	\$840,030	May 24, 2008
Expired May 24, 2008	(2,800,100)		(840,030)	
Issued July 20, 2007 (5)	2,433,000	\$0.30	\$729,900	July 20, 2008
Expired July 20, 2008	(2,433,000)		(729,900)	
Issued September 24, 2007	758,000	\$0.35	\$265,300	Sept 24, 2009
Issued October 3, 2007	295,750	\$0.35	\$103,512	October 5, 2009
Issued November 13, 2007	930,000	\$0.40	\$372,000	November 16, 2009
<b>Balance January 31, 2009</b>	<b>1,983,750</b>		<b>\$740,812</b>	

- (1) Of the 1,530,000 warrants issued December 5, 2005 at an exercise price of \$0.75, later re-priced to \$0.25, 1,430,000 were exercised during October and November 2007 yielding \$357,500, while 100,000 expired on December 4, 2007.
- (2) Of 175,000 Broker Warrants issued June 14, 2007 at an exercise price of \$0.20, 87,500 were exercised on November 13, 2007 yielding \$17,500 while the remaining 87,500 expired June 14, 2008.
- (3) Of 2,750,000 warrants issued February 22, 2007 at an exercise price of \$0.25, 775,000 were exercised between October 10, 2007 and January 16, 2008 yielding \$193,750. The remaining 1,975,000 expired on February 22, 2008.
- (4) All 2,800,100 warrants issued May 24, 2007 at an exercise price of \$0.30 expired May 28, 2008.
- (5) All 2,433,000 warrants issued July 20, 2007 at an exercise price of \$0.20 expired July 20, 2008.

#### d) Share purchase options:

The Company has established a share purchase option plan whereby the board of directors may from time to time grant options to directors, officers, employees or consultants. Options granted must be exercised no later than ten years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of options is determined by the Board of Directors and shall not be lower than the allowable discounted closing market price of the shares on the business day immediately prior to the grant date.

The vesting schedules vary depending on the recipient. Director, officer and employee options vest as follows: 1/3 of the total number granted after six months, a further 1/3 after 1 year and the remaining 1/3 at eighteen months after the date of grant. October 27, 2005 the Company granted 350,000 director options at an exercise price of \$0.25 for a period of five years. The closing market share price on the business day immediately prior to the grant date was \$0.43. On April 11, 2007 Options for 650,000 shares were granted at an exercise price of \$0.20 for a period of five years to directors. The closing market share price on the business day immediately prior to the grant date was \$0.20.

**KETTLE RIVER RESOURCES LTD.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**for the six months ended January 31, 2009 and 2007**  
*Canadian Funds*  
*Unaudited – Prepared by Management*

**6. SHARE CAPITAL, continued**

**d) Share purchase options - continued**

As at January 31, 2009 there were 1,000,000 (January 31, 2008 – 1,000,000) options outstanding.

Summary of the Company's options at January 31, 2009:

<b>Date</b>	<b>Number granted</b>	<b>Exercised</b>	<b>Expired/ Cancelled</b>	<b>Number outstanding April 30, 2008 and 2007</b>	<b>Price per share</b>	<b>Expiry date</b>
October 27, 2005	450,000	-	100,000	<b>350,000</b>	1) \$0.25	October 27, 2010
April 11, 2007	650,000	-	-	<b>650,000</b>	\$0.20	April 11, 2012
	<u>1,100,000</u>	<u>-</u>	<u>100,000</u>	<u><b>1,000,000</b></u>	<b>Balance</b>	

1) On April 30, 2007 the TSX Venture Exchange accepted amendments to stock option agreements dated October 27, 2005 reducing the exercise price from \$0.50 to \$0.25 approved by disinterested shareholders at the Annual General Meeting on October 15, 2007.

As of January 31, 2009 - 1,000,000 options have vested.

**e) Stock based compensation**

The fair value of options granted is estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<u>April 11, 2007</u>
Average risk free interest rate	4.04 %
Average expected option life	5 years
Stock volatility – based on trading history	107 %
Dividend payments during life of option	-

The Black-Scholes Option Pricing Model was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

On April 11, 2007 650,000 options were granted to purchase shares at \$0.20 per share. The total value was calculated to be \$102,815 on the grant date. Since the options were granted under a graded vesting schedule, \$30,464 of the fair value has been recorded in the Company accounts for the period.

**f) Contributed Surplus**

Details are as follows:

	<u>2009</u>	<u>2008</u>
Balance – Beginning of year	\$ 825,807	\$ 265,351
Value of warrants (1) (Note 6, iii, v, vi)	-	484,195
Transferred to share capital upon exercise of options	-	-
Fair value of stock-based compensation (Note 6e)	<b>30,464</b>	51,407
Balance – End of period	<u>\$ 856,271</u>	<u>\$ 800,953</u>

(1) The Black-Scholes Option Pricing Model below was used in estimating the fair value of warrants as follows.

	<u>May 24, 2007</u>	<u>June 13, 2007</u>	<u>July 20, 2007</u>	<u>Sept 24, 2007</u>	<u>Oct 10, 2007</u>	<u>Nov 13, 2007</u>
Stock Price	\$ 0.20	\$0.20	\$ 0.17	\$ 0.195	\$ 0.325	\$ 0.245
Exercise Price	\$ 0.30	\$0.20	\$ 0.30	\$ 0.35	\$ 0.35	\$ 0.40
Expected life of warrants in years	1.00	1.00	1.00	2.00	2.00	2.00
Risk free interest rate	4.08 %	4.75 %	4.08 %	4.08 %	4.08 %	4.08 %
Expected dividend yield	0.00%	0.00	0.00%	0.00%	0.00%	0.00%
Expected Stock volatility	110%	110%	110%	94.54%	83.09%	102.21%
Number of warrants granted	2,800,100	175,000	2,433,000	758,000	295,750	930,000

**KETTLE RIVER RESOURCES LTD.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**for the six months ended January 31, 2009 and 2007**  
*Canadian Funds*  
*Unaudited – Prepared by Management*

---

**7. RELATED PARTY TRANSACTIONS**

As at January 31, 2009 unsecured advances owing to directors and shareholders and bearing no interest were \$163.

On January 20, 2009, a loan agreement was approved by the TSX Venture Exchange whereby a director would advance up to \$75,000 to be secured by a first mortgage on the Company's property located at 1215 Greenwood Street, Greenwood, BC and bear interest at prime plus 3%. This loan has a term of 3 years. As at January 31, 2009, \$25,000 had been advanced with accrued interest on this amount of \$212.

For the period ended January 31<sup>st</sup> the Company incurred the following expenses with related parties:

	<b>2009</b>	2008
To directors for telephone and office to offset expenses incurred in conducting company affairs	\$ 5,527	\$ 5,400
To a director who is the president for management and assists with certain exploration related tasks and for storage facilities (exploration equipment and samples).	<b>57,900</b>	58,025
To directors who are not employees, for administration.	<b>21,525</b>	27,000
To a director who is a geological engineer for consulting services	-	400
To a director for interest accrued on a secured loan to the Company	<b>212</b>	-
<b>Total</b>	<b>\$ 85,164</b>	<b>\$ 90,825</b>

During the period \$35,590 was recovered from a company that has two common directors for office and secretary expenses and reimbursement of expenses.

The above transactions have been recorded at their exchange amount, which is the amount of consideration agreed upon by the related parties.

**8. SEGMENTED INFORMATION**

No segmented information is presented because the Company has no recent logging operations and the Company is solely involved in mineral exploration.

**9. SUBSEQUENT EVENTS:**

On February 3, 2009 the Company received assessment notices from the Revenue Canada Agency indicating that it was entitled to tax refunds of \$42,087, including accrued interest, related to B.C. Mining Exploration Expenditures incurred during the 2007 and 2008 taxation years. As a policy, the Company records such refunds only upon acknowledgement and receipt from the Revenue Canada Agency.

**DIRECTORS AND POSITIONS:**

Ellen Clements, President and CEO \*  
 Larry Widmer, BComm, Corporate Secretary and CFO,  
 Gerald Rayner, Geol., P.Eng. \*  
 Stephen Levano, BA, MBA \*

\* Members of the Audit Committee