



Kettle River Resources Ltd.

(An Exploration Stage Company)

INTERIM FINANCIAL STATEMENTS

2nd quarter
October 31, 2007

(Unaudited – Prepared by Management)

Note to Reader

These interim financial statements for the six months ended October 31, 2007 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

| | October 31, 2007 | April 30, 2007 |
|---|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 367,707 | \$ 57,402 |
| Guaranteed investment certificate | 330,000 | Nil |
| Accrued interest and other amounts receivable | 140,944 | 8,562 |
| Marketable securities (Note 3) | 74,098 | 74,098 |
| Prepaid expenses | 3,247 | 3,416 |
| | <u>915,996</u> | <u>143,478</u> |
| Reclamation Bond | 5,000 | 5,000 |
| Property, Plant and Equipment (Note 4) | 65,345 | 66,945 |
| Mineral Properties (Note 5) | 3 | 3 |
| | <u>\$ 986,344</u> | <u>\$ 215,426</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 42,469 | \$ 101,464 |
| Shareholders' and director's loans (Note 8) | 4,238 | 360,582 |
| Loan payable (Note 9) | - | 304,853 |
| | <u>46,707</u> | <u>766,899</u> |
| SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Share capital (Note 6) | 12,778,242 | 10,880,739 |
| Contributed Surplus (Note 6f) | 783,818 | 265,351 |
| Deficit accumulated in the exploration stage – Statement 2 | (12,622,423) | (11,697,563) |
| | <u>939,637</u> | <u>(551,473)</u> |
| | <u>\$ 986,344</u> | <u>\$ 215,426</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 and Deficit***Canadian Funds**Unaudited – Prepared by Management*

| | For three months ended | | For six months ended | |
|--|------------------------|-------------------|----------------------|----------------------|
| | October 31, | | October 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| MINERAL EXPLORATION ACTIVITIES | | | | |
| Exploration costs | \$ 414,950 | 258,955 | \$ 789,560 | \$ 406,614 |
| Less: Government Assistance | - | (55,289) | - | (55,289) |
| | <u>414,950</u> | <u>203,666</u> | <u>789,560</u> | <u>351,325</u> |
| ADMINISTRATIVE COSTS | | | | |
| Accounting, audit & legal | 17,060 | 21,695 | 26,193 | 28,773 |
| Advertising, promotion & printing | 17,443 | 16,135 | 20,841 | 21,013 |
| Amortization | 113 | 141 | 226 | 282 |
| Licenses, insurance, and transfer agent fees | 18,344 | 11,685 | 31,303 | 14,749 |
| Management, salary & wages (net of recoveries) | 13,159 | 10,944 | 26,638 | 14,428 |
| Office & sundry | 2,165 | 482 | 8,352 | 1,607 |
| Office building expenses | 1,602 | 1,481 | 2,814 | 3,625 |
| Stock compensation expense | 17,136 | 31,036 | 34,272 | 62,071 |
| Telephone | 520 | 368 | 911 | 750 |
| Travel and accommodation | 7,745 | 5,606 | 10,373 | 6,522 |
| | <u>95,287</u> | <u>99,573</u> | <u>161,923</u> | <u>153,820</u> |
| OTHER EXPENSES (INCOME) | | | | |
| Gain on sale of securities | - | (3,930) | - | (21,147) |
| Gain on disposal of capital assets | - | - | - | (1,502) |
| Interest and US Exchange adjustment | (2,659) | (133) | (3,311) | (975) |
| Proceeds from Naket settlement (Note 5e) | (23,312) | - | (23,312) | - |
| | <u>(25,971)</u> | <u>(4,063)</u> | <u>(26,623)</u> | <u>(23,624)</u> |
| GAIN (LOSS) FOR THE PERIOD | (484,266) | (299,176) | (924,860) | (481,521) |
| DEFICIT, BEGINNING OF PERIOD | \$ 12,138,157 | 9,782,027 | \$ 11,697,563 | \$ 9,599,682 |
| DEFICIT, END OF PERIOD | \$ 12,622,423 | 10,081,203 | \$ 12,622,423 | \$ 10,081,203 |
| Gain (Loss) per share, basic and diluted | (\$ 0.02) | (\$ 0.03) | (\$ 0.05) | (\$ 0.04) |
| Weighted average number of Shares outstanding | 22,235,119 | 11,041,611 | 19,905,287 | 11,041,611 |

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 October 31, | | For six months ended October 31, | |
|---|---|--------------|---|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash Flows from Operating Activities | | | | |
| Gain (Loss) for the period | (\$484,266) | (\$ 299,176) | (\$924,860) | (\$ 481,521) |
| Add: Items not involving cash | | | | |
| Amortization | 800 | 913 | 1,600 | 1,826 |
| Gain on sale of Securities | | (3,930) | | (21,147) |
| Gain on disposal of capital assets | | Nil | | (1,502) |
| Stock compensation | 17,136 | 31,036 | 34,272 | 62,071 |
| | (466,330) | | (888,988) | (440,273) |
| Changes in non-cash working capital items: | | | | |
| Decrease (increase) in prepaid amounts | (213) | (173) | 169 | 412 |
| Decrease (increase) in accounts receivable | (130,519) | (56,104) | (132,382) | (57,477) |
| Increase (decrease) in amounts due to director(s) | (3,246) | (953) | (356,344) | 416 |
| Increase (decrease) in Loan payable | - | - | (304,853) | - |
| Increase (decrease) in accounts payable | (4,952) | 326,120 | (58,997) | 326,512 |
| | (605,260) | (2,267) | (1,741,395) | (170,410) |
| Cash Flows from Financing Activities | | | | |
| Shares issued for cash | 991,000 | - | 2,381,700 | - |
| | | | | - |
| Cash Flows from Investing Activities | | | | |
| Acquisition of capital assets | - | - | - | - |
| Proceeds from sale of securities | - | 4,346 | - | 23,434 |
| Proceeds from sale of capital assets | - | - | - | 1,505 |
| | - | 4,346 | - | 24,939 |
| Increase (decrease) in Cash | 385,740 | 2,079 | 640,305 | (145,471) |
| Cash, and term deposits, beginning of period | 311,967 | 60,575 | 57,402 | 208,125 |
| Cash and term deposits, end of period | \$ 697,707 | 62,654 | \$ 697,707 | \$ 62,654 |

Supplementary Schedule

| | | | | |
|--|-----------|--------|-----------|-----------|
| Amortization of capital assets to mineral properties | \$ 688 | 772 | \$ 1,376 | \$ 1,544 |
| Non-monetary transactions | | | | |
| Stock compensation | \$ 17,136 | 31,036 | \$ 34,272 | \$ 62,071 |

See accompanying notes to financial statements.

KETTLE RIVER RESOURCES LTD.

(An Exploration Stage Company)

NOTES TO INTERIM FINANCIAL STATEMENTS

for the six months ended October 31, 2007 and 2006

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 \$869,289 as at October 31, 2007 and has accumulated losses of \$12,622,423. Since inception, the Company has been successful in funding its operations and to date has net issued shares of 26,044,211 for net proceeds of \$12,778,242 averaging \$0.49 per share. The share price at October 31, 2007 was \$0.33 - \$0.34 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 accept 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, 2007.

3. MARKETABLE SECURITIES

| | October 31, 2007 | April 30, 2007 |
|--|------------------|----------------|
| Securities of New Nadina Explorations Limited | | |
| Opening balance – reclassified from investment | \$ 74,098 | \$ 76,592 |
| Disposals during the period | Nil | 2,494 |
| Closing balance – lowest recorded market price | \$ 74,098 | \$ 74,098 |

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 October 31, 2007, owned 1,782,582 New Nadina common shares. The quoted market value of the common shares was about \$0.20 on October 31, 2007.

4. PROPERTY, PLANT AND EQUIPMENT

| | | | October 31, 2007 | April 30, 2007 |
|------------------|-------------------|-----------|--------------------------|----------------|
| | Amortization Rate | Cost | Accumulated Amortization | Net Book Value |
| Land | | \$10,000 | \$ - | \$ 10,000 |
| Paving | 8% | 4,860 | 2,792 | 2,069 |
| Buildings | 4%-5% | 86,401 | 36,717 | 49,684 |
| Mining equipment | 30% | 117,557 | 115,997 | 1,560 |
| Office equipment | 20% | 53,972 | 51,942 | 2,030 |
| Trailer | 30% | 8,890 | 8,888 | 2 |
| | | \$281,680 | \$ 216,336 | \$ 65,345 |

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.

KETTLE RIVER RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
for the six months ended October 31, 2007 and 2006
Canadian Funds
Unaudited – Prepared by Management

5. MINERAL PROPERTIES - continued

| Exploration Expenditures by Property For the period ended October 31,2007 | Greenwood Area | DHK NWT | Silica Quarry 50% | Total |
|--|-------------------|-------------------|----------------------|-------------------|
| Amortization | \$ 1,376 | \$ - | \$ - | \$ 1,376 |
| Assaying | 21,950 | - | - | 21,950 |
| Assessment, filing fees, membership | 9,486 | - | - | 9,486 |
| Direct charges – wages | 19,300 | 6,400 | - | 25,700 |
| Exploration costs 1) | 158,994 | 566,887 | 50 | 725,931 |
| Field Supplies | 549 | - | - | 549 |
| Property costs & acquisition | 494 | - | - | 494 |
| Storage (samples& equipment) | 3,453 | - | - | 3,453 |
| Property and Mineral taxes | 1,578 | - | - | 1,578 |
| Travel & accommodation | 1,081 | 2,962 | - | 4,043 |
| <i>Subtotal:</i> | \$ 218,261 | \$ 576,249 | \$ 50 | \$ 794,560 |
| Less: Recovered Property Costs | (5,000) | - | - | (5,000) |
| TOTAL: | 213,261 | \$ 576,249 | \$ 50 | \$ 789,560 |

| Exploration Expenditures by Property For the period ended October 31, 2006 | Greenwood Area | DHK NWT | Silica Quarry 50% | Total |
|---|--------------------|-------------------|----------------------|-------------------|
| Amortization | \$ 1,544 | \$ - | \$ - | \$ 1,544 |
| Assaying | 3,311 | - | - | 3,311 |
| Assessment, filing fees, membership | 2,968 | - | - | 2,968 |
| Direct charges – wages | 4,700 | 6,100 | 50 | 10,850 |
| Exploration costs 1) | 9,099 | 372,711 | - | 381,810 |
| Field Supplies | 106 | - | - | 106 |
| Legal & miscellaneous | 535 | - | - | 535 |
| Property costs & acquisition | 116 | - | - | 116 |
| Storage (samples & equipment) | 2,888 | - | - | 2,888 |
| Property and Mineral taxes | 1,613 | - | - | 1,613 |
| Travel & accommodation | 873 | - | - | 873 |
| <i>Subtotal:</i> | \$ 27,753 | \$ 378,811 | \$ 50 | \$406,614 |
| Less: Government Assistance | (55,289) | - | - | (55,289) |
| Total: | \$ (27,536) | \$ 378,811 | \$ 50 | \$ 351,325 |

- 1) Exploration costs include equipment costs; freight/delivery expense; geology/geophysics/geochemical expenses; physical work, sampling 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 476 units (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.

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. (42.5%), Dentonia Resources Ltd. (“Dentonia”) (42.5%), and Horseshoe Gold Mining Inc. (“Horseshoe”) (15%). 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.

KETTLE RIVER RESOURCES LTD.
NOTES TO INTERIM FINANCIAL STATEMENTS (continued)
for the six months ended October 31, 2007 and 2006
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5. MINERAL PROPERTIES, continued

c) DHK DIAMONDS INC. – Northwest Territories: - continued

WO Joint Venture -

DHK has a 10.774% contributing interest in the WO Joint Venture operated by Peregrine Diamonds Ltd. (“Peregrine”). The WO JV is undergoing a bulk sample with results to determine grade and diamond value expected before the end of 2007. The results are necessary in determining production feasibility.

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 200 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 (7,500 acres) explored for diamond potential, owned (57.49%) and operated by New Nadina Explorations Limited. During the 2007 program, an additional kimberlite (Genie) was added to the three new kimberlites discovered in 2006. Micro diamond results from tested kimberlites have returned positive results to date.

d) SILICA QUARRY - Saskatchewan:

The Company holds a 50% participating interest the 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.

e) NAKET - Nunavut: 50%:

This property was written off as of April 30, 2007.

The Company, jointly with New Nadina Explorations Limited (“New Nadina”) has allowed the property to lapse including the agreement dated August 1, 2000 with Kennecott Canada Ltd. (“Kennecott”) under which, in consideration of providing the joint venture with certain exploration data, Kennecott for a period of five years following the transfer of data is entitled to a royalty of 1% of net smelter returns on production of diamonds or metal products from properties within the area of interest.

Each of the venturers bore 50% of all acquisition, exploration and other costs. In accordance with an arrangement made between them, Kettle River spent \$80,000 more than New Nadina for exploration on the Naket project during 2001. In order to maintain its 50% interest in the project, New Nadina, at its option could spend, during future phases of project, an equal amount being \$46,624.

In April 2007, the project consultant reported that all samples from the 2006 program of till sampling test for indicator minerals were barren and no further work is planned. A settlement in regard to the unspent balance of \$46,624 will be negotiated. Settlement has been discussed and 50 cents on the dollar has been accepted and therefore an amount of \$23,312 is due payable to Kettle River to clear this obligation.

KETTLE RIVER RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
for the Six months ended October 31, 2007 and 2006
Canadian Funds
Unaudited – Prepared by Management

6. SHARE CAPITAL

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

| b) Issued and fully paid: | No. of Shares | | Proceeds | Value |
|---|----------------------|-------|--------------------|----------------------|
| Balance before repurchased shares at April 30, 2006 | 11,297,611 | | | \$ 10,585,215 |
| Less repurchased treasury shares at cost | (256,000) | (i) | | (698,854) |
| Balance after repurchased shares at April 30, 2006 | 11,041,611 | | | \$ 9,886,361 |
| Issued during period: | | | | |
| Repurchased Shares issued for Debt Settlement | 256,000 | (i) | | 698,854 |
| | | | | (Note 6(e)) |
| Private Placement - February 21, 2007 | 2,750,000 | (ii) | \$412,500 | 299,124 |
| Private Placement Finder Fee shares | 176,000 | (ii) | | (3,600) |
| Balance at April 30, 2007 | 14,223,611 | | | \$ 10,880,739 |
| Issued during period: | | | | |
| Private Placement closed August 2, 2007 (May 24, 2007 and July 20, 2007) | 5,233,100 | (iii) | \$1,011,700 | 723,619 |
| | | | | (Note 6(e)) |
| Private Placement & Finders Fees - June 13, 2007 | 2,000,000 | (iv) | \$379,000 | 379,000 |
| Private Placement & Finders Fees – Sept 24, 2007 | 2,107,500 | (v) | \$411,000 | 313,564 |
| Private Placement & Finders Fees – Oct 31, 2007 | 1,860,000 | (vi) | \$425,000 | 326,320 |
| Warrants exercised October 29, 2007 | 620,000 | (vii) | \$155,000 | 155,000 |
| Balance at October 31, 2007 | 26,044,211 | | \$2,381,700 | \$ 12,778,242 |

- (i) On December 5, 2006 the TSX Venture Exchange accepted the Company's proposal to settle outstanding debt in the amount of \$81,975 for 256,000 shares which had been previously acquired by the Company. This results in \$616,879 adjustment to the deficit.
- (ii) The Company closed the \$412,500 non-brokered private placement announced January 25, 2007 having received TSX Venture Exchange acceptance on February 21, 2007 with the issuance of 2,750,000 shares at \$0.15 per share and warrants exercisable at \$0.25 expiring Feb. 21, 2008. Finders' fees of \$3,600 and 176,000 in common shares were paid. Proceeds of \$412,500 were allocated \$299,124 to shares and \$113,376 to warrants (Note 6 (e)). The hold period expired June 25, 2007.
- (iii) On August 2, 2007 the company completed the Non-Brokered Private Placement referenced in News Releases March 26, 2007, April 24, 2007, and TSX Venture final approval on July 26, 2007. Issued were 5,233,100 units that included 5,058,500 subscriber units and 174,600 Finders' Fees units for total proceeds of \$1,011,700. Each unit contains one common share at \$0.20 and one non-transferable warrant exercisable for one year from date of closing, to purchase a common share of the Company at a price of \$0.30. Insiders of the Company subscribed to 781,000 units. The four-month hold on 2,800,100 units expired Sept. 25, 2007 with warrants expiring May 24, 2008. The 2,433,000 units hold period expired November 21, 2007 with warrants up to July 21, 2008. Proceeds of \$1,011,700 were allocated \$723,619 to shares and \$288,081 to warrants (Note 6 (e)).
- (iv) On June 13, 2007, the company closed the Private Placement referenced in News Releases May 14, 2007 and May 23, 2007 having received TSX Venture approval under Submission#126039 on June 13, 2007. Related to this non-brokered financing, the Company issued 2,000,000 "Flow Through" shares. In addition to \$21,000 paid to finders, 175,000 broker warrants were issued exercisable to purchase one common share of the Company at a price of \$0.20 expiring June 14, 2008 with net proceeds of \$379,000. The four-month hold period related to this placement expired October 15, 2007.
- (v) 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 exercisable for two years from date of closing, to purchase a common share of the Company at a price of \$0.35. Issued September 24, 2007 1,516,000 units with a four-month hold to expire January. 25, 2008 with

KETTLE RIVER RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

for the Six months ended October 31, 2007 and 2006

Canadian Funds

Unaudited – Prepared by Management

6. SHARE CAPITAL – continued

b) Issued and fully paid: - continued

(v) – continued

warrants expiring September 24, 2009. Issued on October 3, 2007 591,500 units with a four-month hold to expire 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 (e)).

(vi) 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 (e)). The four month hold period related to this placement expires on March 14, 2008.

(vii) 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

c) Warrants:

| | Number | Price/share | Value | Expiry |
|--|-------------------|-------------|---------------------|-------------------|
| Issued December 5, 2005 * | 1,530,000 | \$0.25 | \$382,500 | December 4, 2007 |
| Issued February 22, 2007 | 2,750,000 | \$0.25 | \$687,500 | February 22, 2008 |
| Issued May 24, 2007 | 2,800,100 | \$0.30 | \$840,030 | May 24, 2008 |
| Issued June 14, 2007 ** | 175,000 | \$0.20 | \$35,000 | June 14, 2008 |
| Issued July 20, 2007 | 2,433,000 | \$0.30 | \$729,900 | July 20, 2008 |
| Balance July 31, 2007 | 9,688,100 | | \$ 2,674,930 | |
| 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 to October 31, 2007 (issued Nov 13/07) *** | 930,000 | \$0.40 | \$372,000 | November 16, 2009 |
| Exercised October 29, 2007 | (620,000) | \$0.25 | (155,000) | |
| Balance October 31, 2007 | 11,051,850 | | \$3,260,742 | |

* On November 7, 2006 TSX Venture Exchange approved extending the expiry date of 1,530,000 warrants to December 4, 2007 and on July 3, 2007 approved re-pricing them from 75 cents to 25 cents. The re-pricing is subject to the Forced exercise provision: "If the closing price for the company's shares is 31 cents or greater for a period of 10 consecutive trading days, then the warrant holders will have 30 days to exercise their warrants; otherwise the warrants will expire on the 31st day." These warrants pertain to Dec. 1, 2005 non-brokered private placement of 1.53 million shares.

** 175,000 broker warrants, exercisable to purchase one common share of the Company at a price of \$0.20 were issued on June 14, 2007 and will expire June 14, 2008.

*** 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.

KETTLE RIVER RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
for the Six and Nine months ended July 31, 2007 and 2006
Canadian Funds
Unaudited – Prepared by Management

6. SHARE CAPITAL, continued

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.

As at October 31, 2007 there were 1,000,000 (October 31, 2006 - 450,000) options outstanding.

Summary of the Company's options at October 31, 2007:

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

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 pending disinterested shareholder approval.

As of October 31, 2007 - 566,667 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 | Nil |

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.

During the period ended October 31, 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, \$34,272 of the fair value has been recorded in the Company accounts for the period.

f) Contributed Surplus

Details are as follows:

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|------------------|
| Balance – Beginning of year | \$ 265,351 | \$ 62,071 |
| Value of warrants (1) (Note 6 b iii) | 484,195 | Nil |
| Transferred to share capital upon exercise of options | Nil | Nil |
| Fair value of stock-based compensation (Note 6e) | <u>34,272</u> | 31,036 |
| Balance – End of year | <u>\$ 783,818</u> | <u>\$ 93,107</u> |

KETTLE RIVER RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
for the Six and Nine months ended July 31, 2007 and 2006

Canadian Funds

Unaudited – Prepared by Management

6. SHARE CAPITAL, continued

f) Contributed Surplus - continued

(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>July 20, 2007</u> | <u>Sept 24, 2007</u> | <u>Oct 10, 2007</u> | <u>Nov 13, 2007</u> |
|------------------------------------|---------------------|----------------------|----------------------|---------------------|---------------------|
| Stock Price | \$ 0.21 | \$ 0.17 | \$ 0.195 | \$ 0.325 | \$ 0.245 |
| Exercise Price | \$ 0.30 | \$ 0.30 | \$ 0.35 | \$ 0.35 | \$ 0.40 |
| Expected life of warrants in years | 1.00 | 1.00 | 2.00 | 2.00 | 2.00 |
| Risk free interest rate | 4.08 % | 4.08 % | 4.08 % | 4.08 % | 4.08 % |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected Stock volatility | 110% | 110% | 94.54% | 83.09% | 102.21% |
| Number of warrants granted | 2,800,100 | 2,433,000 | 758,000 | 295,750 | 930,000 |

7. RELATED PARTY TRANSACTIONS

Advances from directors and shareholders are unsecured and bear no interest. As at October 31, 2007, \$4,238 is owed.

For the period ended October 31st the Company incurred the following expenses with related parties:

| | <u>2007</u> | <u>2006</u> |
|--|------------------|------------------|
| To directors for telephone and office to offset expenses incurred in conducting company affairs | \$ 3,600 | \$ 3,600 |
| To a director who is the president for management and assists with certain exploration related tasks and for storage facilities (exploration equipment and samples). | 39,450 | 38,550 |
| To directors who are not employees, for administration. | 18,000 | 14,700 |
| To a director who is a geological engineer for consulting services. | Nil | Nil |
| Total | \$ 61,050 | \$ 56,850 |

During the period \$16,447 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:

News Releases details below are in the MD&A report to be read in conjunction with this Financial Statement:

- Dec. 3, 2007 reported \$553,750 year to date received from the exercise of 2,232,500 warrants
- Nov. 22, 2007 reporting closing of 1,860,000 unit private placement
- Nov. 20, 2007 Preliminary results reporting work to date on the Minnie Moore
- Dec. 17, 2007 Peregrine reports Modeled Values of US\$43 to US\$70 per carat for DO27 diamonds
- Dec. 20, 2007 Minnie Moore assays confirm high grade silver from first trenching results.

DIRECTORS AND POSITIONS:

Ellen Clements *, President and CEO
 Larry Widmer, Corporate Secretary and CFO
 Gerald Rayner *
 Stephen Levano *

* Members of the Audit Committee