# KENNA RESOURCES CORP.

(formerly Kenna Capital Corp.)

## CONDENSED INTERIM FINANCIAL STATEMENTS

## JUNE 30, 2013

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**
**PREPARED BY MANAGEMENT**

The accompanying condensed interim financial statements of Kenna Resources Corp. (the “Company”) comprised of the Condensed Interim Statements of Financial Position as at June 30, 2013 and December 31, 2012, and the Condensed Interim Statements of Operations and Comprehensive Loss, Condensed Interim Statements of Changes in Equity and Condensed Interim Statements of Cash Flows for the three and six months ended June 30, 2013 and 2012 are the responsibility of the Company’s management. The independent external auditors of the Company have not reviewed these financial statements.

**KENNA RESOURCES CORP.**
(formerly Kenna Capital Corp.)

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)

| | June 30, 2013 (Unaudited) | December 31, 2012 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 329,522 | $ 368,657 |
| Accounts receivable and prepaid expenses | 6,219 | 2,601 |
| | 335,741 | 371,258 |
| **Non-current assets** | | |
| Exploration and evaluation assets (Note 3) | 242,384 | 241,734 |
| | **$ 578,125** | **$ 612,992** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$ 5,067** | **$ 14,621** |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 4) | 1,054,453 | 1,054,453 |
| Contributed surplus | 112,795 | 112,795 |
| Deficit | (594,190) | (568,877) |
| | **573,058** | **598,371** |
| | **$ 578,125** | **$ 612,992** |

*"Todd L. Lahti"* Director

*"Corey J. Giasson"* Director

**KENNA RESOURCES CORP.**
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**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30**

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **Revenue** | | | | |
| Interest income | **$ 1,039** | **$ 1,059** | **$ 2,084** | **$ 2,585** |
| **Expenses** | | | | |
| Accounting and audit | 4,050 | 8,065 | 6,550 | 13,283 |
| Legal | 6,950 | 18,999 | 6,950 | 99,114 |
| Consultants | - | - | - | 7,000 |
| Insurance | 3,148 | 3,154 | 4,747 | 5,529 |
| Transfer agent, listing and filing fees | 1,662 | 5,673 | 8,449 | 22,645 |
| Travel | - | 770 | 106 | 2,038 |
| Office and miscellaneous | 488 | 3,033 | 595 | 3,184 |
| | **16,298** | **39,694** | **27,397** | **152,793** |
| **Net and comprensive loss** | **$ (15,259)** | **$ (38,635)** | **$ (25,313)** | **$ (150,208)** |
| **Basic and diluted loss per common share** | **$ (0.002)** | **$ (0.005)** | **$ (0.003)** | **$ (0.019)** |
| **Weighted average number of common shares outstanding** | **8,416,975** | **8,416,567** | **8,416,975** | **7,901,210** |

**KENNA RESOURCES CORP.**
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## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)
(Unaudited)

| | Common Shares | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2011** | 7,338,600 | $ 898,954 | $ 126,069 | $ (289,409) | $ 735,614 |
| Issuance of Class A shares | 1,078,375 | 129,675 | - | - | 129,675 |
| Net and comprehensive loss | - | - | - | (150,208) | (150,208) |
| **Balance, June 30, 2012** | 8,416,975 | $1,028,629 | $ 126,069 | $ (439,617) | $ 715,081 |
| | | | | | |
| **Balance, December 31, 2012** | 8,416,975 | $1,054,453 | $ 112,795 | $ (568,877) | $ 598,371 |
| Net and comprehensive loss | - | - | - | (25,313) | (25,313) |
| **Balance, June 30, 2013** | 8,416,975 | $1,054,453 | $ 112,795 | $ (594,190) | $ 573,058 |

**KENNA RESOURCES CORP.**
(formerly Kenna Capital Corp.)

**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30**

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **Cash flows from operating activities:** | | | | |
| Net loss | $ (15,259) | $ (38,635) | $ (25,313) | $ (150,208) |
| Net changes in non-cash working capital items related to operations: | | | | |
| Accounts receivable and prepaid expenses | (5,577) | (4,490) | (3,618) | (5,995) |
| Accounts payable and accrued liabilities | (8,132) | (78,021) | (9,554) | (10,067) |
| | **(28,968)** | **(121,146)** | **(38,485)** | **(166,270)** |
| **Cash flows from investing activities:** | | | | |
| Exploration and evaluation assets | - | (39,688) | (650) | (89,808) |
| | - | **(39,688)** | (650) | **(89,808)** |
| **Cash flows from financing activities:** | | | | |
| Deferred share issue costs | - | 675 | - | 675 |
| | **-** | **675** | **-** | **675** |
| **Net decrease in cash during the period** | (28,968) | (160,159) | (39,135) | (255,403) |
| Cash and cash equivalents, beginning of the period | 358,490 | 651,818 | 368,657 | 747,062 |
| **Cash and cash equivalents, end of the period** | **$ 329,522** | **$ 491,659** | **$ 329,522** | **$ 491,659** |

| | | | | |
|---|---|---|---|---|
| Non-cash investing and financing transactions: | | | | |
| Class A shares issued to acquire exploration and evaluation as: | $ - | $ - | $ - | $ 129,000 |

## 1. Nature of operations and going concern

Kenna Capital Corp. was incorporated under the provisions of *The Business Corporations Act* (Saskatchewan) on September 25, 2009. On June 8, 2012, Kenna Capital Corp. changed its name to Kenna Resources Corp. (the "Company"). The Company's head office is located at 1005 – 201 1st Avenue S., Saskatoon, SK.

On March 28, 2012, the Company completed its Qualifying Transaction, as defined in TSX Venture Exchange Corporate Finance Manual Policy 2.4 - *Capital Pool Companies.* The transaction involved the acquisition of 100% of all rights, title and interests in the Elizabeth Lake copper, silver and gold property located in northern Saskatchewan. The Company is now listed as a Tier 2 mining company and is no longer considered a Capital Pool Company. The Company's shares trade on the TSX Venture Exchange under symbol "KNA". These financial statements were approved by the Company's Board of Directors on August 26, 2013.

### Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continuing operations, as intended, are dependent on its ability to continue to raise adequate financing in order to explore and develop resource properties. The outcome of these matters cannot be predicted at this time.

There can be no certainty as to the ability of the Company to recover its exploration and evaluation assets or to obtain sufficient financing to continue its operations. Accordingly, is material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments or other changes that may be required should the Company be unable to continue as a going concern. Such adjustments and changes could be material.

## 2. Significant accounting policies

### Statement of compliance

These condensed interim financial statements were prepared using International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting and have been prepared following the same accounting policies as the annual financial statements for the year ended December 31, 2012, but do not include all of the information required for annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board.

## 2. Significant accounting policies (continued)

**New standards effective January 1, 2013**

The following new standards have been adopted in these condensed interim financial statements but have not had a material impact on the Company.

- IFRS 10: Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interests in Other Entities
- IFRS 13: Fair Value Measurement
- IAS 1: Presentation of Financial Statements – Components of other Comprehensive Income

## 3. Exploration and evaluation assets

The components of exploration and evaluation assets are as follows:

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Acquisition of mineral rights | $ 181,418 | $ 181,418 |
| Geophysical surveys | 60,966 | 60,316 |
| | $ 242,384 | $ 241,734 |

On March 28, 2012, the Company completed its Qualifying Transaction, involving the acquisition of 100% of all rights, title and interests in the Elizabeth Lake copper, silver and gold project located in northern Saskatchewan (such property and interests are collectively referred to as the "Property").

As consideration for the acquisition of the Property, the Company issued an aggregate of 1,000,000 common shares to BEC International Corp. (the "Vendor") at an ascribed price of $0.12 per share (Note 5) and paid $50,000 in cash consideration to the Vendor. In addition, the Company granted to the Vendor a two percent (2%) royalty on production from the Property, to a maximum amount payable of $5,000,000. A finder's fee was paid to an arm's length party through the issuance of 75,000 common shares of the Company at a deemed price of $0.12 per share.

Based on expenditures incurred to date, the Company's mineral claims are in good standing to 2015.

## 4. Share capital

The authorized share capital of the Company consists of an unlimited number of Class A shares with no par value ("Common Shares" or "Shares").

In 2009, the Company issued 3,845,100 Shares at a price of $0.10 per Share for total cash proceeds of $384,510, all of which were deposited in escrow (the "Escrow Shares") pursuant to an escrow agreement dated March 24, 2010.

**4. Share capital** (continued)

Pursuant to the escrow agreement, 10% of the Escrow Shares were released from escrow upon issuance of a Final Exchange Bulletin by the TSX-V related to the completion of the Company's Qualifying Transaction. The remainder of the Escrow Shares will be released from escrow in six equal tranches of 15% every six months thereafter for a period of 36 months. These Escrow Shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

On April 7, 2010, the Company completed its initial public offering (the "Offering") of 3,493,500 Shares at a price of $0.20 per Share for aggregate gross proceeds of $698,700. The Offering was made pursuant to a prospectus dated March 24, 2010, filed with the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission, The Manitoba Securities Commission and the Ontario Securities Commission.

On March 28, 2012, the Company issued 1,075,000 Shares at an ascribed price of $0.12 per Share to acquire the Elizabeth Lake copper, silver and gold project (Note 3).

**Stock option plan**

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 to directors, officers, employees and consultants to the Company, non-transferable options to purchase Shares.

Options granted vested immediately and expire the earliest of five years after issuance, the 90th day after a holder ceases to be a director or officer of the Company, or one year after the death of the holder.

A summary of the Company's stock option plan and changes during the period is presented below.

| | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Options | | Price | Options | | Price |
| Outstanding, beginning of period | 795,015 | $ | 0.20 | 733,860 | $ | 0.20 |
| Options granted | - | | - | 183,465 | | 0.20 |
| Options expired | - | | - | (122,310) | | 0.20 |
| Outstanding, end of period | 795,015 | $ | 0.20 | 795,015 | $ | 0.20 |
| Weighted average remaining life | 2.59 years | | | 2.84 years | | |

**Agent's option**

In conjunction with the Offering, the Company issued to its agent a non-transferable option to purchase 279,480 Shares at a price of $0.20 per Share, exercisable until April 15, 2012.

The fair value of agent's options issued in 2010 calculated using the Black-Scholes option pricing model was $25,824 and was recorded as share issue costs, reducing share capital, with a

**4. Share capital** (continued)

corresponding increase in contributed surplus. The fair value was determined using the following assumptions: risk free rate of 1.78%, volatility of 85%, dividend yield of nil and expected term of two years.

On April 12, 2012, the agent exercised a portion of the option resulting in the issuance of 3,375 Shares. Thereafter, the remaining option expired.

**5. Related party transactions**

The Board of Directors and management do not receive compensation other than stock options (Note 4).

**6. Capital management**

The Company's objective is to maintain a strong capital base so as to have sufficient resources to acquire, explore and develop resource properties. The Company is not subject to externally imposed capital requirements.

**7. Financial instruments**

**Fair value of financial instruments**

The carrying amount of current financial assets and current financial liabilities approximate their fair value because of the short-term maturities of these items.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the book value of its financial instruments. The Company is not exposed to any significant credit risk as at June 30, 2013. The Company's cash is deposited with a major Canadian chartered bank and is held in highly-liquid investments. The Company's receivables consist of commodity taxes receivables, and are therefore not subject to significant credit risk.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure.

**Market risk analysis**

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company does not hold any financial instruments with market risk.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does not have any interest-bearing debt. The Company's cash and cash equivalent investments are not subject to interest rate risk.