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**KINGSMEN RESOURCES LTD.**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016

*(Expressed in Canadian Dollars)*

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## Independent Auditor's Report

To the Shareholders of Kingsmen Resources Ltd.

We have audited the accompanying consolidated financial statements of Kingsmen Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kingsmen Resources Ltd. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Vancouver, B.C.  
April 19, 2018

*"D&H Group LLP"*

Chartered Professional Accountants

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

|                                                   | Note | December 31,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|---------------------------------------------------|------|----------------------------|----------------------------|
| <b>ASSETS</b>                                     |      |                            |                            |
| <b>Current assets</b>                             |      |                            |                            |
| Cash                                              |      | 249,061                    | 382,145                    |
| GST receivable                                    |      | 558                        | 1,089                      |
| Prepaid expenses                                  |      | <u>2,567</u>               | <u>2,567</u>               |
| <b>Total current assets</b>                       |      | <u>252,186</u>             | <u>385,801</u>             |
| <b>Non-current assets</b>                         |      |                            |                            |
| Exploration and evaluation assets                 | 4    | <u>1</u>                   | <u>1</u>                   |
| <b>Total non-current assets</b>                   |      | <u>1</u>                   | <u>1</u>                   |
| <b>TOTAL ASSETS</b>                               |      | <u>252,187</u>             | <u>385,802</u>             |
| <b>LIABILITIES</b>                                |      |                            |                            |
| <b>Current liabilities</b>                        |      |                            |                            |
| Accounts payable and accrued liabilities          | 6    | <u>8,850</u>               | <u>19,155</u>              |
| <b>TOTAL LIABILITIES</b>                          |      | <u>8,850</u>               | <u>19,155</u>              |
| <b>SHAREHOLDERS' EQUITY</b>                       |      |                            |                            |
| Share capital                                     | 5    | 17,539,956                 | 17,539,956                 |
| Share-based payment reserve                       |      | 2,159,638                  | 2,159,638                  |
| Deficit                                           |      | <u>(19,456,257)</u>        | <u>(19,332,947)</u>        |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |      | <u>243,337</u>             | <u>366,647</u>             |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |      | <u>252,187</u>             | <u>385,802</u>             |

**Nature of Operations** - see Note 1

**Event after the Reporting Period** - see Note 10

These consolidated financial statements were approved for issue by the Board of Directors on April 19, 2018 and are signed on its behalf by:

/s/ **Scott Emerson**  
Scott Emerson  
Director

/s/ **Nick DeMare**  
Nick DeMare  
Director

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

**KINGSMEN RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
*(Expressed in Canadian Dollars)*

|                                                                               |             | <b>Year Ended December 31</b> |                  |
|-------------------------------------------------------------------------------|-------------|-------------------------------|------------------|
|                                                                               | <b>Note</b> | <b>2017</b>                   | <b>2016</b>      |
|                                                                               |             | <b>\$</b>                     | <b>\$</b>        |
| <b>Expenses</b>                                                               |             |                               |                  |
| Accounting and administration                                                 | 6(b)        | 17,029                        | 20,083           |
| Audit                                                                         |             | 11,985                        | 11,985           |
| General exploration                                                           |             | 9,695                         | 4,119            |
| Legal                                                                         |             | -                             | 12,109           |
| Management fees                                                               | 6(a)        | 27,100                        | 87,000           |
| Office                                                                        |             | 6,906                         | 10,735           |
| Professional fees                                                             | 6           | 24,000                        | 24,000           |
| Regulatory                                                                    |             | 7,524                         | 9,924            |
| Rent                                                                          |             | 10,200                        | 9,900            |
| Shareholder costs                                                             |             | 1,758                         | 2,875            |
| Transfer agent                                                                |             | 4,218                         | 6,473            |
| Travel and related                                                            |             | 2,253                         | 1,092            |
|                                                                               |             | <u>122,668</u>                | <u>200,295</u>   |
| <b>Loss before other items</b>                                                |             | <u>(122,668)</u>              | <u>(200,295)</u> |
| <b>Other items</b>                                                            |             |                               |                  |
| Interest and other income                                                     |             | 2,927                         | 7,617            |
| Foreign exchange gain (loss) gain                                             |             | <u>(3,569)</u>                | <u>2,280</u>     |
|                                                                               |             | <u>(642)</u>                  | <u>9,897</u>     |
| <b>Net loss and comprehensive loss for the year</b>                           |             | <u>(123,310)</u>              | <u>(190,398)</u> |
| <b>Basic and diluted loss per common share</b>                                |             | <u>\$(0.01)</u>               | <u>\$(0.02)</u>  |
| <b>Basic and diluted weighted average number of common shares outstanding</b> |             | <u>8,894,376</u>              | <u>8,894,376</u> |

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

**KINGSMEN RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Expressed in Canadian Dollars)*

|                                     | <b>Year Ended December 31, 2017</b> |                      |                                            |                     |                         |
|-------------------------------------|-------------------------------------|----------------------|--------------------------------------------|---------------------|-------------------------|
|                                     | <b>Share Capital</b>                |                      | <b>Share-Based<br/>Payment<br/>Reserve</b> | <b>Deficit</b>      | <b>Total<br/>Equity</b> |
|                                     | <b>Number of<br/>Shares</b>         | <b>Amount<br/>\$</b> | <b>\$</b>                                  | <b>\$</b>           | <b>\$</b>               |
| <b>Balance at December 31, 2016</b> | 8,894,376                           | 17,539,956           | 2,159,638                                  | (19,332,947)        | 366,647                 |
| Net loss for the year               | -                                   | -                    | -                                          | (123,310)           | (123,310)               |
| <b>Balance at December 31, 2017</b> | <u>8,894,376</u>                    | <u>17,539,956</u>    | <u>2,159,638</u>                           | <u>(19,456,257)</u> | <u>243,337</u>          |

  

|                                     | <b>Year Ended December 31, 2016</b> |                      |                                            |                     |                         |
|-------------------------------------|-------------------------------------|----------------------|--------------------------------------------|---------------------|-------------------------|
|                                     | <b>Share Capital</b>                |                      | <b>Share-Based<br/>Payment<br/>Reserve</b> | <b>Deficit</b>      | <b>Total<br/>Equity</b> |
|                                     | <b>Number of<br/>Shares</b>         | <b>Amount<br/>\$</b> | <b>\$</b>                                  | <b>\$</b>           | <b>\$</b>               |
| <b>Balance at December 31, 2015</b> | 8,894,376                           | 17,539,956           | 2,159,638                                  | (19,142,549)        | 557,045                 |
| Net loss for the year               | -                                   | -                    | -                                          | (190,398)           | (190,398)               |
| <b>Balance at December 31, 2016</b> | <u>8,894,376</u>                    | <u>17,539,956</u>    | <u>2,159,638</u>                           | <u>(19,332,947)</u> | <u>366,647</u>          |

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

**KINGSMEN RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in Canadian Dollars)*

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|                                              | <b>Year Ended December 31,</b> |                  |
|----------------------------------------------|--------------------------------|------------------|
|                                              | <b>2017</b>                    | <b>2016</b>      |
|                                              | <b>\$</b>                      | <b>\$</b>        |
| <b>Operating activities</b>                  |                                |                  |
| Net loss for the year                        | (123,310)                      | (190,398)        |
| Changes in non-cash working capital items:   |                                |                  |
| GST receivable                               | 531                            | 767              |
| Prepaid expenses                             | -                              | (1,700)          |
| Accounts payable and accrued liabilities     | (10,305)                       | (2,046)          |
| <b>Net cash used in operating activities</b> | <b>(133,084)</b>               | <b>(193,377)</b> |
| <b>Net change in cash</b>                    | <b>(133,084)</b>               | <b>(193,377)</b> |
| <b>Cash at beginning of year</b>             | <b>382,145</b>                 | <b>575,522</b>   |
| <b>Cash at end of year</b>                   | <b>249,061</b>                 | <b>382,145</b>   |

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

**KINGSMEN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
*(Expressed in Canadian Dollars)*

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**1. Nature of Operations**

The Company was incorporated on January 11, 2000 under the provisions of the Company Act (British Columbia). The Company's common shares are listed and trade on the TSX Venture Exchange ("TSXV") under the symbol "KNG". The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7.

The Company is engaged in the acquisition and exploration of precious metals on mineral properties. On the basis of information to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Exploration and evaluation assets represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

As at December 31, 2017 the Company had working capital in the amount of \$243,336 and an accumulated deficit of \$19,456,257. To date the Company has not earned any revenues and is considered to be in the exploration stage. These consolidated 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 operations for the foreseeable future. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to develop properties and to establish future profitable production. The Company's operations are funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. The Company currently does not anticipate incurring significant exploration activities on its existing exploration and evaluation assets and management considers that the Company has adequate resources to maintain its core operations for the next twelve months. The Company continues to conduct reviews and due diligence on prospective acquisitions and business opportunities. Completion of any acquisition may require the Company to obtain additional financing. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

See also Note 10.

**2. Basis of Preparation**

*Statement of Compliance*

These audited consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB") and interpretations of the *IFRS Interpretations Committee* ("IFRIC").

*Basis of Measurement*

The Company's audited consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

*Details of the Group*

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

As at December 31, 2017 and 2016 the Company had one wholly-owned subsidiary, TMXI Resources S.A. de C.V., a company incorporated in Mexico.

**KINGSMEN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
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**3. Summary of Significant Accounting Policies**

*Critical Judgments and Sources of Estimation Uncertainty*

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.
- (iv) Although, the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- (v) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 7.

*Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:



**KINGSMEN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
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**3. Summary of Significant Accounting Policies (continued)**

- (i) The assessment of any impairment of evaluation and exploration assets, and property, plant and equipment is dependent upon estimates of the recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets.
- (ii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at December 31, 2017 and 2016 there were no decommissioning liabilities.

***Cash and Cash Equivalents***

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at December 31, 2017 and 2016, the Company did not have any cash equivalents.

***Amounts Receivable***

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

***Accounts Payable and Accrued Liabilities***

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

***Exploration and Evaluation Assets***

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and, accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

**KINGSMEN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
*(Expressed in Canadian Dollars)*

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**3. Summary of Significant Accounting Policies (continued)**

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they are charged to the results of operations.

***Property, Plant and Equipment***

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets, at a rate of 20% - 30% for office furniture and equipment and vehicles.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

***Impairment of Long-Lived Assets***

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount

**KINGSMEN RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. Summary of Significant Accounting Policies (continued)**

that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

***Decommissioning Provision***

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate, the changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2017 and 2016 the Company does not have any decommissioning obligations.

***Financial Instruments***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. At December 31, 2017 and 2016 the Company has not classified any financial assets as held to maturity or loans and receivable.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Transaction costs associated with FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). At December 31, 2017 and 2016 the Company has not classified any financial liabilities as FVTPL.

***Share Capital***

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

***Equity Financing***

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior

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**3. Summary of Significant Accounting Policies (continued)**

to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

***Share-Based Payment Transactions***

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

***Current and Deferred Income Taxes***

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

***Current Income Tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***Deferred Income Tax***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and

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**3. Summary of Significant Accounting Policies (continued)**

liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

***Loss Per Share***

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

***Foreign Currency Translation***

***Functional and Presentation Currency***

The financial statements of the Company's subsidiary are prepared in the local currency of its home jurisdiction. Consolidation of the subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. The subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate the subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

***Foreign Currency Transactions***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

***Accounting Standards and Interpretations Issued but Not Yet Effective***

As at the date of these consolidated financial statements, the following standards have not been applied in these financial statements:

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

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**3. Summary of Significant Accounting Policies (continued)**

- (iii) IFRS 16, *Leases*, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

Management is currently assessing the impact of these new standards on the Company's accounting policies and consolidated financial statement presentation.

**4. Exploration and Evaluation Assets**

*La Trini, Mexico*

The Company owns a 100% interest in the La Trini and Mololoa mineral claims ("La Trini Project"). The La Trini Project is located in the Jalisco silver belt approximately 100 kilometres northwest of Guadalajara, Jalisco State, Mexico.

The La Trini Project is subject to a 1% net smelter return royalty ("NSR") and the Company has the right to reduce the NSR to 0.5% through a cash payment of US \$1,000,000.

**5. Share Capital**

(a) *Authorized Share Capital*

The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Equity Financings*

No equity financings were conducted by the Company during fiscal 2017 or fiscal 2016.

See also Note 10.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2017 and 2016 and the changes for the years ended on those dates is as follows:

|                              | <b>2017</b>   |                                                           | <b>2016</b>   |                                                           |
|------------------------------|---------------|-----------------------------------------------------------|---------------|-----------------------------------------------------------|
|                              | <b>Number</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> | <b>Number</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> |
| Balance, beginning of period | -             | -                                                         | 1,562,500     | 0.80                                                      |
| Expired                      | -             | -                                                         | (1,562,500)   | 0.80                                                      |
| Balance, end of period       | -             | -                                                         | -             | -                                                         |

See also Note 10.

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**5. Share Capital (continued)**

(d) *Share Option Plan*

The Company has established a rolling share option plan (the “Plan”), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company’s closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

The Company did not grant any share options during fiscal 2017 and 2016 and, as of December 31, 2017, the Company had no share options outstanding.

**6. Related Party Disclosures**

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Key Management Personnel Disclosures*

During fiscal 2017 and 2016 the following amounts were incurred with respect to the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of the Company:

|                         | 2017<br>\$    | 2016<br>\$    |
|-------------------------|---------------|---------------|
| Management fees - CEO   | 27,100        | 87,000        |
| Professional fees - CFO | <u>6,000</u>  | <u>6,000</u>  |
|                         | <u>33,100</u> | <u>93,000</u> |

As at December 31, 2017, \$5,194 (2016 - \$nil) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Other Related Party Disclosures*

(i) During fiscal 2017 and 2016 the following amounts were incurred with respect to non-management directors of the Company:

|                   | 2017<br>\$    | 2016<br>\$    |
|-------------------|---------------|---------------|
| Professional fees | <u>18,000</u> | <u>18,000</u> |

As at December 31, 2017, \$nil (2016 - \$6,500) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During fiscal 2017 the Company incurred a total of \$12,900 (2016 - \$15,500) to Chase Management Ltd. (“Chase”), a private corporation owned by the CFO of the Company, for accounting and administration services provided by Chase personnel excluding the CFO. As at December 31, 2017, \$1,714 (2016 - \$1,300) remained unpaid and has been included in accounts payable and accrued liabilities.

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**7. Income Taxes**

Deferred income tax assets and liabilities of the Company as at December 31, 2017 and 2016 are as follows:

|                               | <b>2017</b>        | <b>2016</b>        |
|-------------------------------|--------------------|--------------------|
|                               | <b>\$</b>          | <b>\$</b>          |
| Deferred income tax assets    |                    |                    |
| Non-capital losses            | 1,907,000          | 1,859,400          |
| Capital losses                | 536,900            | 517,000            |
| Share issue costs             | 100                | 400                |
| Mineral resource interests    | <u>827,200</u>     | <u>798,000</u>     |
|                               | 3,271,200          | 3,174,800          |
| Valuation allowance           | <u>(3,271,200)</u> | <u>(3,174,800)</u> |
| Net deferred income tax asset | <u>-</u>           | <u>-</u>           |

The recovery of income taxes shown in the consolidated statements of loss and comprehensive loss and deficit differs from the amounts obtained by applying substantively enacted statutory rates to the loss before provision for income taxes due to the following:

|                                                 | <b>2017</b>   | <b>2016</b>   |
|-------------------------------------------------|---------------|---------------|
| Combined federal and provincial income tax rate | <u>26.0%</u>  | <u>26.0%</u>  |
|                                                 | <b>2016</b>   | <b>2015</b>   |
|                                                 | <b>\$</b>     | <b>\$</b>     |
| Expected income tax recovery                    | (32,100)      | (49,500)      |
| Foreign income tax rate differences             | (300)         | (400)         |
| Other                                           | (300)         | (200)         |
| Unrecognized benefit of income tax losses       | <u>32,700</u> | <u>50,100</u> |
| Actual income tax recovery                      | <u>-</u>      | <u>-</u>      |

As at December 31, 2017, the Company has non-capital losses of approximately \$4,390,300 (2016 - \$4,280,800), capital losses of approximately \$3,976,700 (2016 - \$3,976,700) and accumulated pools of approximately \$2,523,000 (2016 - \$2,524,600) for Canadian income tax purposes to offset against future income. The non-capital losses expire commencing 2026 to 2037. The capital losses can be carried forward indefinitely.

The Company also has non-capital losses of approximately \$2,577,400 (2016 - \$2,665,500) for Mexican income tax purposes.

Income tax benefits which may arise as a result of these losses have not been recognized in the financial statements as their realization is unlikely.



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**8. Segmented Information**

The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results. The Company's total assets are segmented geographically as follows:

| <b>As at December 31, 2017</b>    |                |               |                |
|-----------------------------------|----------------|---------------|----------------|
|                                   | <b>Canada</b>  | <b>Mexico</b> | <b>Total</b>   |
|                                   | <b>\$</b>      | <b>\$</b>     | <b>\$</b>      |
| Current assets                    | 251,809        | 377           | 252,186        |
| Exploration and evaluation assets | -              | 1             | 1              |
|                                   | <u>251,809</u> | <u>378</u>    | <u>252,187</u> |
| <b>As at December 31, 2016</b>    |                |               |                |
|                                   | <b>Canada</b>  | <b>Mexico</b> | <b>Total</b>   |
|                                   | <b>\$</b>      | <b>\$</b>     | <b>\$</b>      |
| Current assets                    | 383,825        | 1,976         | 385,801        |
| Exploration and evaluation assets | -              | 1             | 1              |
|                                   | <u>383,825</u> | <u>1,977</u>  | <u>385,802</u> |

**9. Financial Instruments and Risk Management**

***Categories of Financial Assets and Financial Liabilities***

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

| <b>Financial Instrument</b>              | <b>Category</b>             | <b>December 31,<br/>2017<br/>\$</b> | <b>December 31,<br/>2016<br/>\$</b> |
|------------------------------------------|-----------------------------|-------------------------------------|-------------------------------------|
| Cash                                     | FVTPL                       | 249,061                             | 382,145                             |
| Accounts payable and accrued liabilities | Other financial liabilities | (8,850)                             | (19,155)                            |

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amount for accounts payable and accrued liabilities approximate its fair value due to the short-term nature. The Company's fair value of cash under the fair value hierarchy are measured using Level 1 inputs.

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**9. Financial Instruments and Risk Management (continued)**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash. Management believes that the credit risk concentration with respect to financial instruments included in cash is remote.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

| <b>Contractual Maturity Analysis at December 31, 2017</b> |                                      |                                 |                               |                                |                     |
|-----------------------------------------------------------|--------------------------------------|---------------------------------|-------------------------------|--------------------------------|---------------------|
|                                                           | <b>Less than<br/>3 Months<br/>\$</b> | <b>3 - 12<br/>Months<br/>\$</b> | <b>1 - 5<br/>Years<br/>\$</b> | <b>Over<br/>5 Years<br/>\$</b> | <b>Total<br/>\$</b> |
| Cash                                                      | 249,061                              | -                               | -                             | -                              | 249,061             |
| Accounts payable and accrued liabilities                  | (8,850)                              | -                               | -                             | -                              | (8,850)             |
| <b>Contractual Maturity Analysis at December 31, 2016</b> |                                      |                                 |                               |                                |                     |
|                                                           | <b>Less than<br/>3 Months<br/>\$</b> | <b>3 - 12<br/>Months<br/>\$</b> | <b>1 - 5<br/>Years<br/>\$</b> | <b>Over<br/>5 Years<br/>\$</b> | <b>Total<br/>\$</b> |
| Cash                                                      | 382,145                              | -                               | -                             | -                              | 382,145             |
| Accounts payable and accrued liabilities                  | (19,155)                             | -                               | -                             | -                              | (19,155)            |

*Market Risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

*Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

*Foreign Currency Risk*

The Company has operations in Mexico subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian Dollars and Mexican Pesos. The fluctuation of the Canadian Dollar in relation to the Mexican Peso will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company also maintains US Dollar bank accounts with its Canadian bank. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At December 31, 2017, 1 Canadian Dollar was equal to 15.64 Mexican Pesos and 0.80 US Dollar.

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**9. Financial Instruments and Risk Management (continued)**

Balances are as follows:

|                                          | <b>Mexican<br/>Pesos</b> | <b>US<br/>Dollars</b> | <b>CDN \$<br/>Equivalent</b> |
|------------------------------------------|--------------------------|-----------------------|------------------------------|
| Cash                                     | 5,896                    | 30,647                | 38,823                       |
| Accounts payable and accrued liabilities | <u>(25,250)</u>          | <u>-</u>              | <u>(1,614)</u>               |
|                                          | <u>(19,354)</u>          | <u>30,647</u>         | <u>37,209</u>                |

Based on the net exposures as of December 31, 2017 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Mexican Peso and the US Dollar would result in the Company's net loss being approximately \$4,100 higher (or lower).

*Capital Management*

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**10. Event after the Reporting Period**

On January 22, 2018 the Company completed a non-brokered private placement of 8,000,000 units for gross proceeds of \$600,000. Each unit comprised one common share of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable to acquire one additional common share of the Company at an exercise price of \$0.10 per share, expiring January 22, 2020.