
KINGSMEN RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Kingsmen Resources Ltd.

Opinion

We have audited the consolidated financial statements of Kingsmen Resources Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gordon Cummings.

Vancouver, B.C.
April 14, 2020

"D&H Group LLP"

Chartered Professional Accountants

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

	Note	December 31, 2019 \$	December 31, 2018 \$
ASSETS			
Current assets			
Cash		705,215	570,554
GST receivable		5,367	2,781
Prepaid expenses		14,039	13,385
Total current assets		724,621	586,720
Non-current assets			
Exploration and evaluation assets	4	1	1
Total non-current assets		1	1
TOTAL ASSETS		724,622	586,721
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	8,922	22,214
TOTAL LIABILITIES		8,922	22,214
SHAREHOLDERS' EQUITY			
Share capital	5	18,615,138	18,127,609
Share-based payment reserve		2,159,638	2,159,638
Deficit		(20,059,076)	(19,722,740)
TOTAL SHAREHOLDERS' EQUITY		715,700	564,507
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		724,622	586,721

Nature of Operations - see Note 1

Events after the Reporting Period - see Note 10

These consolidated financial statements were approved for issue by the Board of Directors on April 14, 2020 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)

	Note	Year Ended December 31	
		2019	2018
		\$	\$
Expenses			
Accounting and administration	6(b)(i)	24,084	27,830
Audit		10,394	10,593
Conference		2,161	-
General exploration		73,833	11,659
Legal		3,784	2,712
Listing and sponsorship fees		-	26,244
Management fees	6(a)	96,000	75,100
Office		14,777	15,532
Professional fees	6	24,000	39,900
Regulatory		30,279	14,389
Rent		21,050	14,300
Shareholder costs		1,654	2,321
Transfer agent		6,396	6,413
Travel and related		34,522	32,636
		<u>342,934</u>	<u>279,629</u>
Loss before other items		<u>(342,934)</u>	<u>(279,629)</u>
Other items			
Interest and other income		11,848	12,449
Foreign exchange		<u>(5,250)</u>	<u>697</u>
		<u>6,598</u>	<u>13,146</u>
Net loss and comprehensive loss for the year		<u>(336,336)</u>	<u>(266,483)</u>
Basic and diluted loss per common share		<u>\$(0.02)</u>	<u>\$(0.02)</u>
Weighted average number of common shares outstanding		<u>18,795,164</u>	<u>16,434,102</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)

Year Ended December 31, 2019					
	Share Capital		Share-Based Payment Reserve \$	Deficit \$	Total Equity \$
	Number of Shares	Amount \$			
Balance at December 31, 2018	16,894,376	18,127,609	2,159,638	(19,722,740)	564,507
Common shares issued for:					
- private placement	7,774,114	505,317	-	-	505,317
Share issue costs	-	(17,788)	-	-	(17,788)
Net loss for the year	-	-	-	(336,336)	(336,336)
Balance at December 31, 2019	24,668,490	18,615,138	2,159,638	(20,059,076)	715,700

Year Ended December 31, 2018					
	Share Capital		Share-Based Payment Reserve \$	Deficit \$	Total Equity \$
	Number of Shares	Amount \$			
Balance at December 31, 2017	8,894,376	17,539,956	2,159,638	(19,456,257)	243,337
Common shares issued for:					
- private placement	8,000,000	600,000	-	-	600,000
Share issue costs	-	(12,347)	-	-	(12,347)
Net loss for the year	-	-	-	(266,483)	(266,483)
Balance at December 31, 2018	16,894,376	18,127,609	2,159,638	(19,722,740)	564,507

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

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

	Year Ended December 31,	
	2019	2018
	\$	\$
Operating activities		
Net loss for the year	(336,336)	(266,483)
Changes in non-cash working capital items:		
GST receivable	(2,586)	(2,223)
Prepaid expenses	(654)	(10,818)
Accounts payable and accrued liabilities	(13,292)	13,364
Net cash used in operating activities	(352,868)	(266,160)
Financing activities		
Issuance of share capital	505,317	600,000
Share issue costs	(17,788)	(12,347)
Net cash provided by financing activities	487,529	587,653
Net change in cash	134,661	321,493
Cash at beginning of year	570,554	249,061
Cash at end of year	705,215	570,554

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, 2019 AND 2018
(Expressed in Canadian Dollars)

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" and on the OTCQB under the symbol ("TUMIF"). 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.

On February 18, 2020 the Company entered into an agreement to sell an interest in the La Trini Property, as described in Note 10.

As at December 31, 2019 the Company had working capital in the amount of \$715,699 and an accumulated deficit of \$20,059,076. 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.

Most recently, there was a global outbreak of a novel coronavirus identified as "COVID-19". On March 11, 2020 the World Health Organization ("WHO") declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. The Company will continue to monitor the impact of the COVID-19 outbreak, the duration and impact which is unknown at this time, as is the efficacy of any intervention. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

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.

KINGSMEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
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2. Basis of Preparation (continued)

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, 2019 and 2018 the Company had one wholly-owned subsidiary, TMXI Resources S.A. de C.V. ("TMXI"), a company incorporated in Mexico. See also Note 10.

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.

KINGSMEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
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2. Basis of Preparation

- (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:

- (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, 2019 and 2018 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, 2019 and 2018, 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.

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

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.

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.

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 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.

KINGSMEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

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, 2019 and 2018 the Company does not have any decommissioning obligations.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. All recognized financial assets are measured subsequently at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI").

The Company classifies its financial instruments into the following categories:

- (i) Financial assets at FVTP: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses" in the period in which they arise.
- (ii) Financial assets at FVTOCI: The Company has made an irrevocable election to designate its investments in marketable equity securities as classified at fair value through other comprehensive income. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance. Fair values are determined by reference to quoted market prices at the balance sheet date. When investments in marketable equity securities are disposed of or impaired, the cumulative gains and losses recognized in other comprehensive income are not recycled to profit and loss and remain within equity.
- (iii) Financial assets and liabilities at amortized cost: Financial assets and liabilities at amortized cost include cash, trade receivables, credit facility and trade payables and are included in current classification due to their short-term nature. Trade receivables and payables are non-interest bearing if paid when due and are recognized at their face amount, less, when material, a discount, except when fair value is materially different. Amounts drawn on the credit facility are interestbearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost.

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.

KINGSMEN RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

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 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.

KINGSMEN RESOURCES LTD.
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3. Summary of Significant Accounting Policies (continued)

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 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.

Adoption of New Accounting Standards

The Company adopted IFRS 16 - *Leases* (“IFRS 16”) effective January 1, 2019.

IFRS 16 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.

There was no impact on the Company’s consolidated financial statements upon the adoption of this new standard.

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4. Exploration and Evaluation Assets

La Trini, Mexico

The Company owns a 100% interest in five mineral claims (the “La Trini Project”) 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.

See also Note 10.

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*

Fiscal 2019

During fiscal 2019 the Company completed a non-brokered private placement financing of 7,774,114 units at \$0.065 per unit for gross proceeds of \$505,317. Each unit comprised one common share of the Company and one share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at an exercise price of \$0.085 per share, expiring two years from closing. The Company incurred \$17,788 for legal and filing costs associated with this private placement. The President of the Company, a company controlled by the President and the spouse of the President purchased a total of 1,415,384 units for \$92,000.

Fiscal 2018

On January 22, 2018 the Company completed a non-brokered private placement financing of 8,000,000 units at \$0.075 per unit 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. The Company also incurred \$12,347 for legal and filing costs associated with this private placement. Close family members of Directors and/or Officers of the Company purchased 313,332 units for \$23,500.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company’s outstanding warrants at December 31, 2019 and 2018 and the changes for the years ended on those dates is as follows:

	2019		2018	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	4,000,000	0.10	-	-
Issued	<u>7,774,114</u>	0.085	<u>4,000,000</u>	0.10
Balance, end of year	<u>11,774,114</u>	0.09	<u>4,000,000</u>	0.10

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5. Share Capital (continued)

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at December 31, 2019:

Number	Exercise Price \$	Expiry Date
4,000,000	0.10	January 22, 2020*
6,345,384	0.085	September 30, 2021
<u>1,428,730</u>	0.085	October 15, 2021
<u>11,774,114</u>		

* Expired without exercise.

(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 2019 or fiscal 2018 and, as of December 31, 2019, the Company had no share options outstanding.

6. Related Party Disclosures

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company.

(a) *Key Management Personnel Disclosures*

During fiscal 2019 and 2018 the following amounts were incurred with respect to the CEO and CFO of the Company:

	2019 \$	2018 \$
Management fees - CEO	96,000	75,100
Professional fees - CFO	<u>6,000</u>	<u>6,000</u>
	<u>102,000</u>	<u>81,100</u>

(b) *Other Related Party Disclosures*

(i) During fiscal 2019 and 2018 the following amounts were incurred with respect to non-management directors and the corporate secretary of the Company:

	2019 \$	2018 \$
Professional fees	<u>18,000</u>	<u>18,000</u>

As at December 31, 2019, \$6,000 (2018 - \$6,000) remained unpaid and has been included in accounts payable and accrued liabilities.

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6. Related Party Disclosures (continued)

- (ii) During fiscal 2019 the Company incurred a total of \$19,975 (2018 - \$23,800) 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, 2019, \$500 (2018 - \$3,100) remained unpaid and has been included in accounts payable and accrued liabilities.
- (iii) See Note 5(b).

7. Income Taxes

Deferred income tax assets and liabilities of the Company as at December 31, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Deferred income tax assets		
Non-capital losses	2,099,800	2,041,200
Capital losses	536,900	536,900
Share issue costs	5,800	2,700
Mineral resource interests	<u>690,900</u>	<u>715,400</u>
	3,333,400	3,296,200
Valuation allowance	<u>(3,333,400)</u>	<u>(3,296,200)</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:

	2019	2018
Combined federal and provincial income tax rate	<u>27.0%</u>	<u>27.0%</u>
	2018	2017
	\$	\$
Expected income tax recovery	(90,800)	(72,000)
Foreign income tax rate differences	(800)	(200)
Other	(1,200)	(400)
Unrecognized benefit of income tax losses	<u>92,800</u>	<u>72,600</u>
Actual income tax recovery	<u>-</u>	<u>-</u>

As at December 31, 2019, the Company has non-capital losses of approximately \$4,900,000 (2018 - \$4,641,600), capital losses of approximately \$3,976,700 (2018 - \$3,976,700) and accumulated pools of approximately \$2,544,500 (2018 - \$2,532,800) for Canadian income tax purposes to offset against future income. The non-capital losses expire commencing 2026 to 2039. The capital losses can be carried forward indefinitely.

The Company also has non-capital losses of approximately \$2,774,200 (2018 - \$2,814,200) 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:

As at December 31, 2019			
	Canada \$	Mexico \$	Total \$
Current assets	722,945	1,676	724,621
Exploration and evaluation assets	-	1	1
	<u>722,945</u>	<u>1,677</u>	<u>724,622</u>
As at December 31, 2018			
	Canada \$	Mexico \$	Total \$
Current assets	585,130	1,590	586,720
Exploration and evaluation assets	-	1	1
	<u>585,130</u>	<u>1,591</u>	<u>586,721</u>

9. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"); amortized cost; and fair value through other comprehensive income. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2019 \$	December 31, 2018 \$
Cash	FVTPL	705,215	570,554
Accounts payable and accrued liabilities	Amortized cost	(8,922)	(22,214)

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 their 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.

	Contractual Maturity Analysis at December 31, 2019				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	705,215	-	-	-	705,215
Accounts payable and accrued liabilities	(8,922)	-	-	-	(8,922)
	Contractual Maturity Analysis at December 31, 2018				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	570,554	-	-	-	570,554
Accounts payable and accrued liabilities	(22,214)	-	-	-	(22,214)

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 a US Dollar bank account with its Canadian bank. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At December 31, 2019, 1 Canadian Dollar was equal to 14.57 Mexican Pesos and 0.77 US Dollar.

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9. Financial Instruments and Risk Management (continued)

Balances are as follows:

	Mexican Pesos	US Dollars	CDN \$ Equivalent
Cash	24,408	45,683	61,004
Accounts payable and accrued liabilities	<u>(5,965)</u>	<u>-</u>	<u>(409)</u>
	18,443	45,683	60,595

Based on the net exposures as of December 31, 2019 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 \$6,500 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. Events after the Reporting Period

- (a) The Company has entered into a letter of intent dated, February 18, 2020, and a purchase option agreement, dated April 7, 2020, with an arm's length purchaser (the "Buyer"), whereby the Company has agreed to sell an initial 49% ownership interest (the "Initial Interest") in TMXI to the Buyer for US \$225,000. The Buyer then has the option (the "Option") to acquire the Company's remaining 51% in TMXI by paying the Company US \$210,000 on or before February 18, 2022, subject to acceleration provisions (the "Option Period"). If the Buyer does not exercise the Option within the Option Period then the Company may re-purchase the Buyer's Initial Interest for \$1.

TMXI's sole asset is the La Trini Project. The Buyer has agreed to directly fund all expenditures incurred on the La Trini Project and all future costs incurred in TMXI for the duration of the Option Period.

Upon the exercise of the Option the Company will retain a 1% NSR on the La Trini Property, which may then be purchased by the Buyer for US \$1,000,000.

The Company has received conditional acceptance from the TSXV and closing is subject to final TSXV approval.

- (b) See also Note 5(c).