

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**

**Financial Statements**  
**December 31, 2010 and 2009**

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# ***Chang Lee LLP***

***Chartered Accountants***

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## **INDEPENDENT AUDITORS' REPORT**

### ***To the Shareholders of***

### ***Kingsman Resources Inc.***

We have audited the accompanying financial statements of Kingsman Resources Inc. (the "Company"), which comprise the balance sheet as at December 31, 2010, the statements of operations, comprehensive loss and deficit, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

## ***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Company is still in the exploration stage and, as such, no revenue has been yet generated from its operating activities. Accordingly, the Company depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

## **Other Matters**

The financial statements of Kingsman Resources Inc. for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2010.

Vancouver, BC, Canada  
March 28, 2011

**CHANG LEE LLP**  
Chartered Accountants

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Balance Sheets**  
**December 31,**

	2010	2009
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 129,691	\$ 210,912
HST / GST receivable	25,223	1,585
Mining tax credit receivable (note 8)	17,718	16,461
Prepaid expenses	6,233	-
	<b>178,865</b>	<b>228,958</b>
<b>Reclamation Bonds</b>	<b>35,000</b>	<b>35,000</b>
<b>Resource Property Interests</b> (note 6) (schedule)	<b>1,389,632</b>	<b>1,067,103</b>
	<b>\$ 1,603,497</b>	<b>\$ 1,331,061</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 104,662	\$ 27,652
Due to related parties	-	13,049
	<b>104,662</b>	<b>40,701</b>
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 7b)	<b>6,097,693</b>	<b>5,719,477</b>
<b>Contributed Surplus</b> (note 7(c))	<b>448,249</b>	<b>394,722</b>
<b>Deficit</b>	<b>(5,047,107)</b>	<b>(4,823,839)</b>
	<b>1,498,835</b>	<b>1,290,360</b>
	<b>\$ 1,603,497</b>	<b>\$ 1,331,061</b>

Going Concern (note 2)

Approved on behalf of the Board:

*"Robert McLaughlin"*  
..... Director  
Robert McLaughlin

*"Edward Drummond"*  
..... Director  
Edward Drummond

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Statements of Operations, Comprehensive Loss and Deficit**  
**Year Ended December 31**

	<b>2010</b>	<b>2009</b>
<b>Expenses</b>		
Salaries and consulting fees	\$ 91,800	\$ 133,772
Stock-based compensation (note 7(d))	57,727	53,971
Accounting and legal	52,848	73,278
Transfer agent and filing fees	19,023	14,694
Investor communications	17,269	49,167
Office and miscellaneous	17,043	16,399
Travel	12,320	21,194
Insurance	3,693	4,081
Bank charges and interest, net	(5)	(3,690)
<b>Operating Expenses</b>	<b>271,718</b>	<b>362,866</b>
Future income tax (recovery)	(48,450)	-
<b>Net Loss and Comprehensive Loss for the Year</b>	<b>223,268</b>	<b>362,866</b>
<b>Deficit, Beginning of Year</b>	<b>4,823,839</b>	<b>4,460,973</b>
<b>Deficit, End of Year</b>	<b>\$ 5,047,107</b>	<b>\$ 4,823,839</b>
<b>Basic and Diluted Loss Per Share</b>	<b>\$ 0.01</b>	<b>\$ 0.02</b>
<b>Weighted Average Number of Common Shares Outstanding – Basic and Diluted</b>	<b>28,125,764</b>	<b>21,473,282</b>

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Statements of Cash Flows**  
**Year Ended December 31**

	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Net loss	\$ (223,268)	\$ (362,866)
Item not involving cash		
Future income tax recovery	(48,450)	-
Stock-based compensation	57,727	53,971
	(213,991)	(308,895)
Changes in non-cash working capital		
HST / GST receivable	(23,638)	41,594
Prepaid expenses	(6,233)	16,904
Due to related parties	(13,049)	-
Accounts payable and accrued liabilities	76,673	2,282
	33,753	60,780
<b>Cash Used in Operating Activities</b>	<b>(180,238)</b>	<b>(248,115)</b>
<b>Investing Activities</b>		
Short-term investments	-	195,000
Resource property interests	(302,111)	(15,427)
Reclamation bonds	-	(11,500)
<b>Cash Provided by (Used in) Investing Activities</b>	<b>(302,111)</b>	<b>168,073</b>
<b>Financing Activity</b>		
Net proceeds from share issuance	401,128	271,000
<b>Cash Provided by (Used in) Financing Activities</b>	<b>401,128</b>	<b>271,000</b>
<b>Inflow (Outflow) of Cash</b>	<b>(81,221)</b>	<b>190,958</b>
<b>Cash, Beginning of Year</b>	<b>210,912</b>	<b>19,954</b>
<b>Cash, End of Year</b>	<b>\$ 129,691</b>	<b>\$ 210,912</b>
<b>Supplemental Cash Flow Information</b>		
Shares issued for resource property interests	\$ 21,675	\$ 13,150
Agent warrants issued	\$ -	\$ 7,559
Provincial mining tax credit receivable excluded from resource property expenditures	\$ 17,718	\$ 16,461

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended December 31, 2010 and 2009**

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**1. OPERATIONS**

Kingsman Resources Inc. (the "Company") was incorporated under the *Company Act* of British Columbia on October 14, 1993, and is involved in the acquisition, exploration and development of resource properties. The Company is currently evaluating opportunities both in the mineral sector and otherwise. To date, the Company has not earned significant revenue and is considered to be in the exploration stage.

**2. GOING CONCERN**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred significant operating losses over the past several fiscal years, has working capital of \$74,203 (2009 - \$188,257), an accumulated deficit of \$5,047,107 (2009 - \$4,823,839), limited resources, no source of operating cash flow, and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral interests. The Company's current working capital is not sufficient to meet its administrative overhead costs, flow-through obligations and to continue exploration and development work on its mineral interests in 2011.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

The recoverability of amounts shown for mineral interests is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable operations or proceeds from disposition of mineral interests.

**3. SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars, which is the Company's functional currency.

(b) Cash and short-term investments

Cash and short-term investments are comprised of cash and highly liquid short-term investments maturing within one year from the original dates of acquisition and which can be converted to known amounts of cash at any time.

**KINGSMAN RESOURCES INC.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(c) Interest income

Interest income is recorded as earned on the accruals basis at the effective rate of interest on the short-term investments and certain reclamation bonds.

(d) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or resource property interests, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

(e) Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated entirely to common shares.

(f) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(g) Resource property interests

The Company defers all costs related to investments in resource property interests on a property-by-property basis. Such costs include resource property acquisition costs and exploration expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and resource property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse. Costs accumulated relating to projects that are abandoned are written off in the period in which a decision to discontinue the project is made.

**KINGSMAN RESOURCES INC.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) Resource property interests (Continued)

All deferred costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a resource property interest pursuant to the terms of an option agreement. As such, options are exercisable entirely at the discretion of the optionee; the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

(h) Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated using the treasury stock method, which gives effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, the recoverability of mineral interests, determination of asset retirement and environmental obligations, future income tax assets and liabilities, valuation allowance for future income tax assets and the determination of the variables used in the calculation of stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

**KINGSMAN RESOURCES INC.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. The Company has determined that it has no material ARO as at December 31, 2010 and 2009.

(k) Reclamation bonds

Reclamation bonds represent cash held in term deposits and with government agencies intended to cover any environmental or reclamation obligations arising from the Company's resource property interests. Management believes funds in place are adequate to meet any future potential liability. These bonds are a prerequisite to drilling on the properties.

(l) Mining and exploration tax recoveries

The Company recognizes mining and exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

(m) Non-monetary transactions

Shares issued for consideration other than cash are valued at their quoted market price at the date of issuance.

(n) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

A portion of the future income tax assets that were not previously recognized are recognized as a recovery of future income taxes in the statements of operations up to the amount of the future income tax liability or renouncement.

**KINGSMAN RESOURCES INC.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(o) Financial instruments and comprehensive income

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company has no items of other comprehensive income or loss in any period presented. Therefore, net loss as presented in the Company's statements of operations equals comprehensive loss.

(p) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after January 1, 2011. The effective date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year ended December 31, 2010. The Company has begun the planning and scoping phase of the transition to IFRS and intends to transition to IFRS financial statements during fiscal 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

**KINGSMAN RESOURCES INC.**  
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**Notes to Financial Statements**  
**Years Ended December 31, 2010 and 2009**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(p) Future accounting changes (Continued)

(ii) Business Combinations (Continued)

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

(iii) Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company does not expect that the adoption of EIC 17 will have any material impact on its financial statements.

(q) Comparative figures

Certain comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

**KINGSMAN RESOURCES INC.**  
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**Notes to Financial Statements**  
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**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company has classified its cash as held-for-trading; reclamation deposits as loans and receivables; and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

(a) Fair value

The carrying values of cash, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of reclamation bonds approximates their fair value since amounts held earn market rates of interest.

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about the financial instruments. Fair values are determined directly by reference to published price quotations in an active market, when available, or by using a valuation technique that uses inputs observed from the markets.

The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in CICA Handbook section 3862 – Financial Instruments – Disclosures:

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs which are supported by little or no market activity.

All of the Company's cash and reclamation bonds are assessed to be in Level 1.

(b) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and certain reclamation bonds, which are placed with major Canadian financial institutions. With regard to other reclamation bonds and amounts receivable, the Company is not exposed to significant credit risk as the majority are due from government agencies.

Concentration of credit risk exists with respect to the Company's cash and certain reclamation bonds, as amounts are held at a single major Canadian financial institution. The maximum exposure is as follows:

	2010	2009
Cash	\$ 129,691	\$ 210,912
Reclamation bonds	8,500	8,500
	\$ 138,191	\$ 219,412

**KINGSMAN RESOURCES INC.**  
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**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities. The Company's cash at December 31, 2010 totalled \$129,691 (2009 - \$210,912). At December 31, 2010, the Company had current liabilities of \$104,662 (2009 - \$40,701), all of which are due within 30 days of the end of the quarter.

The Company requires significant additional funding to meet its administrative overhead costs and flow-through obligations and maintain its mineral interests in 2011.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk. The Company is not exposed to any significant market risks.

**5. CAPITAL MANAGEMENT**

The Company's primary source of funds comes from the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral properties. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overhead to manage costs, commitments and exploration activities.

The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this financing due to uncertain economic conditions.

There have been no changes to the Company's approach to capital management.

**KINGSMAN RESOURCES INC.**  
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**Notes to Financial Statements**  
**Years Ended December 31, 2010 and 2009**

**6. RESOURCE PROPERTY INTERESTS**

(a) International Basin Property

In 2007, the Company was granted an option to acquire a 100% interest in the International Basin Property located 35 kilometres south of Golden, British Columbia, in the Slocan and Golden Mining Divisions.

To maintain the option in good standing, the Company is required to make payments to the optionors and to perform exploration work on the International Basin Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2007 - on approval	<sup>(1)</sup> \$ 20,000	<sup>(2)</sup> 90,000	\$ -
2008 - by September 30	<sup>(1)</sup> 20,000	<sup>(2)</sup> 90,000	<sup>(3)</sup> 150,000
2009 - by September 30	<sup>(1)</sup> 30,000	<sup>(2)</sup> 90,000	<sup>(4)</sup> 150,000
2010 - by September 30	<sup>(1)</sup> 40,000	<sup>(2)</sup> 90,000	<sup>(4)</sup> 300,000
2011 - by September 30	40,000	90,000	400,000
	<b>\$ 150,000</b>	<b>450,000</b>	<b>\$ 1,000,000</b>

<sup>(1)</sup>Paid      <sup>(2)</sup>Issued      <sup>(3)</sup>Completed      <sup>(4)</sup>80% Completed

The shortfall of the spending to be completed by September 30, 2010 will be carried forward to 2011 by agreement with the optionors.

Upon completion of a bankable feasibility study, the Company is obligated to issue an additional 200,000 common shares to the optionors of the property.

The optionors of the property retain a 2% net smelter returns royalty ("NSR"). The Company has the option to purchase 1% of the royalty for \$1,500,000.

(b) Luxor Moly Property

In 2007, the Company was granted an option to acquire a 100% interest in the Luxor Moly Property located 28 kilometres northeast of Barriere, British Columbia, in the Kamloops Mining Division.

To maintain the option in good standing, the Company is required to make payments to the optionors and to perform exploration work on the Luxor Moly Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2007 - on approval	<sup>(1)</sup> \$ 10,000	<sup>(2)</sup> 50,000	\$ -
2007 - by December 31	<sup>(1)</sup> 10,000	<sup>(2)</sup> 50,000	<sup>(3)</sup> 100,000
2008 - by December 31	<sup>(1)</sup> 20,000	<sup>(2)</sup> 75,000	<sup>(3)</sup> 100,000
2009 - by December 31	<sup>(1)</sup> 30,000	<sup>(2)</sup> 100,000	<sup>(3)</sup> 100,000
2010 - by December 31	<sup>(1)</sup> 30,000	<sup>(2)</sup> 125,000	<sup>(3)</sup> 100,000
2011 - by December 31	-	-	<sup>(3)</sup> 100,000
	<b>\$ 100,000</b>	<b>400,000</b>	<b>\$ 500,000</b>

**KINGSMAN RESOURCES INC.**  
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**6. RESOURCE PROPERTY INTERESTS (Continued)**

(1) Paid                      (2) Issued                      (3) Completed

Completion of a bankable feasibility study obligates the Company to issue an additional 200,000 common shares to the optionors of the property. The optionors of the property retain a 2% NSR. The Company has the option to purchase 1% of the royalty for \$1,500,000.

(c) Pathfinder Property

In 2007, the Company was granted an option to acquire a 100% interest in the Pathfinder Property located 20 kilometres north of Grand Forks, British Columbia, in the Boundary Mining Division.

To maintain the option in good standing, the Company is required to make payments to the optionors and to perform exploration work on the Pathfinder Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2007 - on approval	(1) \$ 5,000	(2) 40,000	\$ -
2008 - by July 1	(1) 5,000	(2) 40,000	(3) 50,000
2009 - by July 1	(1) 5,000	(2) 40,000	(3) 50,000
2010 - by July 1	(1) 10,000	(2) 40,000	(3) 50,000
2011 - by July 1	10,000	40,000	(3) 50,000
	<b>\$ 35,000</b>	<b>200,000</b>	<b>\$ 200,000</b>

(1) Paid                      (2) Issued                      (3) Completed

Completion of a bankable feasibility study obligates the Company to issue an additional 200,000 common shares to the optionors of the property. The optionors of the property retain a 2% NSR. The Company has the option to purchase 1% of the royalty for \$1,500,000.

*Realization of assets*

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of government requirements and the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful life of the property upon commencement of commercial production or written off if the property is abandoned or the claims allowed to lapse.

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**6. RESOURCE PROPERTY INTERESTS (Continued)**

*Title to resource property interests*

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

*Environmental*

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the properties may be diminished or negated.

**7. CAPITAL STOCK**

(a) Authorized

Unlimited number without par value

(b) Issued

	Shares	Amount
Balance, December 31, 2008	21,296,430	\$ 5,442,886
For resource property interests	230,000	13,150
Private placements, net of issue costs	5,600,000	263,441
Transfer agent rounding adjustment	5	-
Balance, December 31, 2009	27,126,435	\$ 5,719,477
For resource property interests	255,000	21,675
Private placements, net of issue costs	5,140,000	386,291
Warrant exercise	45,000	4,500
Broker warrant exercise	100,000	14,200
Future income tax liability on renouncement of expenditures	-	(48,450)
Balance, December 31, 2010	32,666,435	\$ 6,097,693

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**7. CAPITAL STOCK (Continued)**

(b) Issued (Continued)

During the year ended December 31, 2010 :

- (i) Pursuant to three resource property option agreements, 255,000 shares were issued at a fair value of \$0.085 per share.
- (ii) On November 4, 2010 the Company closed a non-brokered private placement of 5,140,000 units at a price of \$0.08 per unit. Each unit consists of one (1) common share of the Company and one (1) share purchase warrant. Each warrant entitles the holder to purchase one (1) additional common share of the Company for a period of twenty-four (24) months at an exercise price of \$0.15. The warrants expire October 28, 2012. All securities issued pursuant to the placement are subject to restrictions on resale to March 1, 2011. The Company incurred share issuance costs of \$24,909.
- (iii) During the year ended December 31, 2010, 45,000 warrants valued at \$0.10 were exercised for proceeds of \$4,500 and 100,000 broker warrants valued at \$0.10 were exercised for proceeds of \$10,000. \$4,200 contributed surplus was reclassified to the share capital upon the exercise of 100,000 broker warrants.
- (iv) During the year ended December 31, 2010, 3,400,000 flow through shares previously issued at \$0.05 per share were renounced and the related future income tax liability on renouncement of expenditures \$48,450 was recorded to reduce the share capital.

During the year ended December 31, 2009:

- (i) Pursuant to three resource property option agreements, 40,000 shares were issued at a fair value of \$0.08 per share, 90,000 shares were issued at a fair value of \$0.055 per share and 100,000 shares were issued at a fair value of \$0.05 per share.
- (ii) The Company completed a non-brokered private placement for total proceeds of \$280,000. The issue consists of 3,400,000 flow-through units and 2,200,000 non-flow-through units. Each non-flow-through unit consists of one non-flow-through common share and one non-flow-through common share purchase warrant. Each flow-through unit consists of one flow-through common share and one-half of one non-flow-through common share purchase warrant. Each whole warrant will entitle the holder to buy one common share of the Company for \$0.10, expiring on June 29, 2011.

In addition, finders' fees of \$9,000 were paid and 180,000 finders' warrants, with the same terms as the private placement warrants, were issued. The warrants were fair valued at \$7,559, using the Black-Scholes method and the following assumptions: risk-free interest rate: 1.46%; expected dividend yield: 0; expected stock price volatility: 325%; expected life in years: 1.5.

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**7. CAPITAL STOCK (Continued)**

(c) Contributed surplus

	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 394,722	\$ 333,192
Fair value of agent's warrants	-	7,559
Stock-based compensation	57,727	53,971
Fair value of broker warrants exercised	(4,200)	-
Balance, end of year	\$ 448,249	\$ 394,722

(d) Stock options

The Company has a stock option plan in place under which it is authorized to grant options of up to 10% of its outstanding shares to officers, directors, employees and consultants. The exercise price of each option is to be determined by the Board of Directors but shall not be less than the discounted market price as defined by the TSX Venture Exchange. The expiry date for each option should be for a maximum term of five years.

Options granted to consultants not engaged in investor relations activities are granted for past services and vest immediately. Options granted to investor relations consultants vest according to TSX Venture Exchange policy.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	<b>2010</b>		<b>2009</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, beginning of year	1,400,000	\$ 0.12	1,520,000	\$ 0.16
Granted	1,330,000	\$ 0.10	600,000	\$ 0.10
Expired	-	-	(720,000)	\$ 0.20
Outstanding and exercisable, end of year	2,730,000	\$ 0.11	1,400,000	\$ 0.12

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**7. CAPITAL STOCK (Continued)**

(d) Stock options (continued)

The following stock options were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Options	
		2010	2009
June 11, 2013	\$ 0.13	800,000	800,000
May 22, 2014	\$ 0.10	600,000	600,000
August 10, 2015	\$ 0.10	1,330,000	-
		2,730,000	1,400,000
Weighted average outstanding life of options		3.71 years	3.9 years

The Company applies the fair value method in accounting for its stock options. Stock options granted during the year ended December 31, 2010 resulted in stock-based compensation of \$57,727 (2009 - \$53,971) of which \$nil (2009 - \$nil) was capitalized to resource property interests. Of the \$57,727 in stock-based compensation, \$31,251 (2009 - \$17,990) relates to options granted to directors and \$26,476 (2009 - \$35,981) relates to options granted to employees and consultants.

The fair value of each option granted is calculated using the following weighted average assumptions:

	2010	2009
Risk-free interest rate	2.21%	2.27%
Expected life of options	5 years	5 years
Annualized volatility	123.77%	309.74%
Dividends	0.00%	0.00%
Fair value of stock	\$0.04	\$0.09

(e) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	3,900,000	\$ 0.10	8,341,000	\$ 0.28
Issued	5,140,000	\$ 0.15	3,900,000	\$ 0.10
Exercised	(45,000)	\$ 0.10		
Expired	-	-	(8,341,000)	\$ 0.28
Outstanding, end of year	8,995,000	\$ 0.13	3,900,000	\$ 0.10

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**7. CAPITAL STOCK (Continued)**

(e) Warrants (continued)

The following warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2010	2009
June 29, 2011	\$ 0.10	3,855,000	3,900,000
October 28, 2012	\$ 0.15	5,140,000	-
		8,995,000	3,900,000
Weighted average outstanding life of warrants		1.25 years	1.5 years

Agent's warrants transactions and the number of agent's warrants outstanding are summarized as follows:

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	180,000	\$ 0.10	150,000	\$ 0.24
Issued	-	-	180,000	\$ 0.10
Exercised	(100,000)	\$ 0.10	-	-
Expired	-	-	(150,000)	\$ 0.24
Outstanding, end of year	80,000	\$ 0.10	180,000	\$ 0.10

The following agent's warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2010	2009
June 29, 2011	\$ 0.10	80,000	180,000
		80,000	180,000
Weighted average outstanding life of warrants		0.49 years	1.5 years

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**8. INCOME TAXES**

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<b>2010</b>	<b>2009</b>
Income tax benefit computed at Canadian statutory rates		
Loss before future income tax	\$ (77,440)	\$ (108,860)
Non-deductible items	17,110	16,191
Share issue costs expensed for tax purposes	(5,690)	(4,500)
Change in timing differences	-	60,539
Effect of change in tax rate	-	39,664
Decrease in valuation allowance	17,570	(3,034)
Income tax expense (recovery)	\$ (48,450)	\$ -

The Company has non-capital losses carried forward of approximately \$1,535,000 available to reduce future years' income for income tax purposes. These losses expire as follows:

2014	\$ 90,000
2015	107,000
2026	167,000
2027	385,000
2028	230,000
2029	324,000
2030	232,000
	<b>\$ 1,535,000</b>

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**8. INCOME TAXES** (Continued)

The significant components of the Company's future tax assets, after applying enacted corporate income tax rates, are as follows:

	<b>2010</b>	<b>2009</b>
Future income tax assets		
Non-capital loss carry-forwards for Canadian purposes	\$ 340,884	\$ 376,656
Share issue costs	8,132	6,900
Tax value over book value of expenditures on resource properties	235,957	287,604
Valuation allowance	(584,973)	(671,160)
	<b>\$ -</b>	<b>\$ -</b>

The valuation allowance reflects the Company's estimate that the tax assets more likely than not will not be realized.

The Company qualifies for a British Columbia Mining Exploration Tax Credit ("BC METC") as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred during the year. During the year ended December 31, 2010, the Company received a refund of \$16,641 (2009 - \$133,304) with respect to prior years' BC METC claims, which has been recorded as a decrease to resource property interests in 2007 (\$10,274), 2008 (\$117,893) and 2009 (\$5,137). An amount of \$17,718 (2009 - \$16,461) with respect to the BC METC claim has been recorded with a corresponding decrease to mineral interests in 2010.

**9. RELATED PARTY TRANSACTIONS**

Included in prepaid expenses, \$6,233 was advanced to a director of the Company for expenditures incurred on the daily operations of the Company.

Included in accounts payable and accrued liabilities, \$88,200 was payable to the directors of the Company for accrued salaries. The amount is unsecured, non-interest bearing and with no specific payment term.

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**Schedule of Resource Property Interests**

	International Basin Property	Luxor Moly Property	Pathfinder Property	Total
Balance, December 31, 2008	236,434	442,709	267,698	946,841
Property acquisition costs				
Cash and shares	34,950	35,000	8,200	78,150
Staking and recording	5,400	3,438	-	8,838
Property exploration costs				
Drilling and trenching	-	1,000	2,500	3,500
Mapping and compilation	24,147	4,950	20,644	49,741
Assays and sampling	581	-	1,050	1,631
Provincial mining tax credits	(7,418)	(1,785)	(12,395)	(21,598)
Total costs for the year	57,660	42,603	19,999	120,262
Balance, December 31, 2009	294,094	485,312	287,697	1,067,103
Property acquisition costs				
Cash and shares	47,650	40,625	13,400	101,675
Staking and recording	9,308	203	-	9,511
Property exploration costs				
Assays and sampling	-	5,912	-	5,912
Drilling and trenching	-	216,683	-	216,683
Mapping and compilation	2,359	4,107	-	6,466
Provincial mining tax credits	-	(17,718)	-	(17,718)
Total costs for the year	59,317	249,812	13,400	322,529
Balance, December 31, 2010	\$ 353,411	\$ 735,124	\$ 301,097	\$ 1,389,632