TELSON RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended

February 28, 2014

and

February 28, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Telson Resources Inc.

We have audited the accompanying consolidated financial statements of Telson Resources Inc., which comprise the consolidated statements of financial position as at February 28, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Telson Resources Inc. as at February 28, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Telson Resources Inc.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

June 24, 2014

TELSON RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	February 28, 2014	February 28, 2013
ASSETS		
Current assets		
Cash (Note 4)	$ 22,380	$ 26,882
Receivables (Note 5)	50,921	80,464
Prepaid expenses and advances (Note 6)	11,858	13,850
	85,159	121,196
Exploration and evaluation assets (Note 7)	576,525	797,551
Equipment (Note 8)	40,136	67,889
	$ 701,820	$ 986,636
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Trade and other payables (Note 9)	$ 867,179	$ 802,330
Advances (Note 16)	192,500	227,165
Loans (Note 10)	311,000	303,000
Obligation under share purchase agreement (Note 7)	222,000	200,000
	1,592,679	1,532,495
Non-current liabilities		
Reclamation and remediation provision (Note 11)	183,303	176,295
	1,775,982	1,708,790
Shareholders' deficiency		
Share capital (Note 12)	43,694,449	43,032,599
Share subscriptions received	20,000	-
Share-based payments reserve (Note 13)	1,895,962	1,579,552
Deficit	(46,684,573)	(45,334,305)
	(1,074,162)	(722,154)
	$ 701,820	$ 986,636

Nature of operations and going concern (Note 1)
Subsequent event (Note 20)

On behalf of the Board:

"*Ralph Shearing*"	Director	"*John Lynch*"	Director
Ralph Shearing		John Lynch	

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

TELSON RESOURCES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	Years ended February 28, 2014	2013
EXPENSES		
Amortization	$ 18,460	$ 26,173
Business promotion (recovery)	(6,200)	5,602
Communications	14,577	17,872
Consulting and financial services	10,500	83,708
Exploration and evaluation expenditures (Note 7)	344,815	629,588
Foreign exchange loss	67,460	30,940
Insurance	26,034	40,359
Interest and finance charges	1,455	1,636
Interest on loans	36,353	60,618
Office and miscellaneous	26,521	33,759
Professional fees	196,301	254,475
Property investigations (Note 7)	120,707	-
Regulatory fees	15,075	26,305
Rent	87,010	91,972
Salaries and benefits	195,550	299,319
Share-based payments (Note 13)	-	27,815
Transfer agent	11,928	16,503
Travel	-	14,982
	(1,166,546)	(1,661,626)
Write-down of exploration and evaluation assets (Note 7)	(221,026)	-
Interest income	551	3,738
Gain on disposal of equipment	4,203	-
Loss and comprehensive loss for the year	$ (1,382,818)	$ (1,657,888)
Basic and diluted loss per common share	$ (0.04)	$ (0.06)
Weighted average number of common shares outstanding	37,838,424	26,133,999

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

TELSON RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Years ended February 28, 2014	February 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,382,818)	$ (1,657,888)
Items not affecting cash:		
Amortization	18,460	26,173
Bonus shares included in interest	-	28,123
Stock-based payments expensed	-	27,815
Unrealized foreign exchange loss	37,008	13,714
Gain on disposal of equipment	(4,203)	-
Write-down of exploration and evaluation assets	221,026	-
Changes in non-cash working capital items:		
Receivables	29,543	260,858
Prepaid expenses and advances	1,992	61,222
Accounts payable and accrued liabilities	64,849	139,548
Net cash used in operating activities	(1,014,143)	(1,100,435)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares and warrants	1,018,000	850,000
Share issue costs	(7,190)	(4,680)
Share subscriptions received	20,000	-
Advances received	81,308	210,665
Advance repayments	(115,973)	(13,500)
Net cash provided by financing activities	996,145	1,042,485
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment sales (purchases)	13,496	(516)
Net cash provided by (used in) investing activities	13,496	(516)
Change in cash during the year	(4,502)	(58,466)
Cash, beginning of year	26,882	85,348
Cash, end of year	$ 22,380	$ 26,882

Supplemental disclosure with respect to cash flows (Note 14)

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

TELSON RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian dollars)

	Issued Number of Shares	Share Amount	Share Sub-scriptions Received	Share-based payments reserve	Deficit	Total
Balance, February 29, 2012	24,999,116	$ 42,411,856	$ 350,000	$ 1,374,770	$ (44,054,950)	$ 81,676
Share units issued (Note 12)	6,062,500	665,500	(350,000)	534,500	-	850,000
Share units issued – Finders fees (Note 12)	75,000	15,000	-	21,000	-	36,000
Share units issue costs (Note 12)	-	(59,757)	-	-	-	(59,757)
Share-based payments - options (Note 13)	-	-	-	27,815	-	27,815
Share-based payments - option expiry (Note 13)	-	-	-	(282,533)	282,533	-
Share-based payments - warrants expiry (Note 13)	-	-	-	(96,000)	96,000	-
Loss and comprehensive loss for the year	-	-	-	-	(1,657,888)	(1,657,888)
Balance, February 28, 2013	31,136,616	$ 43,032,599	$ -	$ 1,579,552	$ (45,334,305)	$ (722,154)
Share units issued (Note 12)	18,560,000	444,600	-	573,400	-	1,018,000
Share subscriptions received	-	-	20,000	-	-	20,000
Share units issue costs (Note 12)	-	(7,190)	-	-	-	(7,190)
Share-based payments - option expiry (Note 13)	-	-	-	(32,550)	32,550	-
Share-based payments - warrants expiry (Note 13)	-	224,440	-	(224,440)	-	-
Loss and comprehensive loss for the year	-	-	-	-	(1,382,818)	(1,382,818)
Balance, February 28, 2014	49,696,616	$ 43,694,449	$ 20,000	$ 1,895,962	$ (46,684,573)	$ (1,074,162)

1. NATURE OF OPERATIONS AND GOING CONCERN

Telson Resources Inc. (the "Company") was incorporated on April 11, 1986 under the laws of British Columbia, Canada. The Company's head office address is Suite 250, 1090 West Georgia Street, Vancouver, BC, V6E 3V7, Canada. The registered and records office address is Suite 700, 595 Burrard Street, Vancouver, BC, Canada, V7X 1S8. The Company is a reporting issuer in the provinces of British Columbia and Alberta, Canada, and trades on the TSX Venture Exchange (TSX-V) under the symbol "TSN".

The consolidated financial statements of the Company as at and for the year ended February 28, 2014 comprise the accounts of the Company and its subsidiaries. The Company is the ultimate parent.

The Company is engaged in the identification, acquisition, exploration and, if warranted, development of exploration and evaluation assets consisting of mineral resource projects in Mexico ("mineral properties"). In conducting operations in Mexico, the Company is subject to considerations and risks not typically associated with companies operating in Canada. These include risks such as the political, economic and legal environments in an emerging market. Among other things, the Company's results may be adversely affected by changes in political and social conditions in Mexico, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

The Company is considered to be in the exploration stage as it has not placed any of its mineral properties into production. The Company has not generated any production revenue since inception and has never paid any dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of the amounts spent for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company will periodically have to raise additional funds to continue operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

These consolidated financial statements are 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 in the foreseeable future. The Company believes it does not have sufficient cash on hand to finance operations through the next twelve months without additional financing. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing for the substantial expenditures required to achieve planned principal operations. These matters indicate that there is material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standards 1, *Presentation of Financial Statements* (“IAS 1”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved by the Board of Directors on June 24, 2014.

Basis of consolidation

These consolidated financial statements includes the accounts of Telson Resources Inc. and its following listed subsidiaries;

Subsidiary name	Incorporation jurisdiction	Ownership
Samarkand de Mexico S.A. de C.V. ("Samarkand")	Mexico	100%
Sierra Soleada S.A. de C.V. (“Sierra”)	Mexico	100%
Sacramento de la Plata S.A. de C.V. ("Sacramento")	Mexico	99%
531607 BC Ltd	BC, Canada	100%

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions have been eliminated upon consolidation.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent Company’s functional currency. The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. BASIS OF PRESENTATION (continued)

Critical accounting estimates:

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Estimated useful lives of equipment

The estimated useful lives of equipment which are included in the consolidated statements of financial position will impact the amount and timing of the related amortization included in profit or loss.

Share-based payments

The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

Exploration and evaluation assets

Acquisition costs related to the acquisition of exploration and evaluation assets are capitalized by property. Acquisition costs include cash consideration and the value of common shares, based on recent issue prices, issued for exploration and evaluation assets pursuant to the terms of the agreement. Exploration expenditures, net of recoveries, are charged to operations as incurred.

If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

An exploration and evaluation asset acquired under an option agreement, where payments are made at the sole discretion of the Company, is capitalized at the time of payment.

2. BASIS OF PRESENTATION (continued)

Exploration and evaluation assets (continued)

The amounts shown for exploration and evaluation assets do not necessarily represent present or future cash flows. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Reclamation and remediation provision

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in profit or loss. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

Actual rehabilitation costs will ultimately depend upon the future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Title to exploration and evaluation assets

Title to exploration and evaluation assets (or “mineral properties”) involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

Equipment

Equipment is carried at cost less accumulated amortization and accumulated impairment losses, if any.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment (continued)

Amortization is provided at rates calculated to amortize the costs of equipment, over its estimated useful lives, using the declining balance basis as follows:

Vehicles	25%
Exploration equipment	30%
Camp equipment	30%
Computer equipment	30%
Office equipment	20%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

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

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

Exploration and evaluation assets and Exploration expenditures

Once the legal right to explore a property has been acquired all costs directly related to the acquisition, classified as exploration and evaluation assets, are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Exploration expenditures, net of recoveries, are charged to operations as incurred.

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restoration, rehabilitation and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the related costs for that amount. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional asset retirement costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

a) Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designated as effective hedges. Assets in this category include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include receivables.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

c) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the financial asset’s original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

c) Impairment of financial assets (continued)

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

d) De-recognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all of the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company has classified trade and other payables, advances, loans, and obligations under share purchase agreements as other financial liabilities.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

In the Company’s case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants on loss per share would be anti-dilutive.

Share-based payment transactions

The Company’s stock option plan allows employees, directors, officers, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in share-based compensation reserve. 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. Consideration paid on the exercise of stock options is credited to capital stock and the fair value of the options is reclassified from share compensation reserve to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

If options or warrants issued as share-based compensation are subsequently cancelled or forfeited without being exercised, then the historical fair value of the share-based compensation is transferred from reserve to deficit.

Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as share-based payment reserve. If warrants issued are subsequently cancelled without being exercised, then the historical fair value of the share-based payment reserve is transferred from reserve to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies adopted

The following standards and amendments to existing standards have been adopted by the Company effective March 1, 2013:

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Ventures
- IFRS 11 – Disclosure of Interest in Other Entities
- IFRS 13 – Fair Value Measurement
- IFRS 27 – Separate Financial Statements
- IFRS 28 – Associates and Joint Ventures

The adoption of the above standards did not have an impact on the financial statements.

New standards, interpretations and amendments not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Effective for annual periods beginning on or after January 1, 2014:

IFRS 10, IFRS 12, IAS 27, *Exception from Consolidation for "Investment Entities"*

IFRS 10 is amended to define an "investment entity" and introduce an exception from consolidation for investment entities. IFRS 12 and IAS 27 are amended to introduce disclosures than an investment entity needs to make.

IAS 32, *Financial Instruments: Presentation*

IAS 32 is amended to clarify requirements for offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2015:

IFRS 7, *Financial Instruments – Disclosure*

Amended to require additional disclosures on transition from IAS 39 to IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments not yet effective (continued)

Effective (proposed) for annual periods beginning on or after January 1, 2018:

IFRS 9, *Financial Instruments – Classification and Measurement*

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

4. CASH

All cash balances are denominated in Canadian dollars and held in deposits at both Canadian and Mexican banks.

5. RECEIVABLES

The Receivable amounts are denominated in Canadian dollars and relate to both Canadian and Mexican refundable value added taxes.

6. PREPAID EXPENSES AND ADVANCES

The Prepaid expenses and Advances amounts are denominated in Canadian dollars and relate to both Canadian and Mexican vendor deposits, tax installments, and employee advances.

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

Tahuehueto Project

In 1997, pursuant to a share purchase agreement through Samarkand, the Company acquired 90% of the issued and outstanding capital stock of Sacramento. In March 2007 the Company converted a portion of inter-company debt between Samarkand and Sacramento into equity, thereby increasing its ownership in Sacramento from 90% to 99%. Sacramento holds a 100% interest in the Tahuehueto mineral property, located in Durango State, Mexico. A portion of the property is subject to a 1.6% net smelter return royalty ("NSR").

Pursuant to the share purchase agreement, the Company is obligated to make final payments of US$200,000 to the vendors of the Sacramento shares.

In 2006, the Company entered into an agreement for surface access rights to certain areas of the Tahuehueto project, expiring in May 2016. Under the terms of this agreement the Company must pay an annual fee escalating at 5% per annum. The fee due for the 2013 fiscal year of US$26,801 was paid in July 2012. Fees for the 2014 fiscal year have not yet been paid.

Jocuixtita Project

During the year ended February 28, 2010 the Company acquired mineral properties by staking and entered into two option agreements to explore and acquire a 100% interest in mineral properties located in Jocuixtita, Sinaloa, Mexico. Due to an internal dispute amongst local residents the Company enforced a Force Majeure clause in the option agreements and suspended both further option payment obligations and exploration activities at the Jocuixtita Project until the dispute amongst local residents was resolved. In July 2013 the Company decided to terminate the Jocuixtita option agreements. Accordingly, the related acquisition costs of $221,026 were written-off during the year ended February 28, 2014. The Company still owns the mineral properties staked by its subsidiary Samarkand.

In May 2011, the Company entered into an agreement for surface access rights to certain areas of the Jocuixtita project, expiring in May 2041. Under the terms of this agreement the Company must pay an annual fee based on the area occupied, adjusted annually for inflation. Fees for the 2014 fiscal year have not been paid as the Company did not carry on any onsite exploration activities.

Exploration and evaluation assets

	Tahuehueto	Jocuixtita	Total
Acquisition costs; February 28, 2013 and 2012	$576,525	$221,026	$797,551
Write-down of exploration and evaluation assets	-	(221,026)	(221,026)
Acquisition costs; February 28, 2014	$576,525	$ -	$576,525

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

Exploration and evaluation expenditures

Exploration and evaluation expenditures charged to operations were incurred as follows:

	February 28, 2014		
	Tahuehueto	Jocuixtita	Total
Assays, data and maps	$ 7,486	$ -	$ 7,486
Equipment and supplies	20,216	-	20,216
Insurance	1,730	2,601	4,331
Mineral concession taxes, licences, and fees	41,563	8,387	49,950
Project office	79,361	692	80,053
Transportation, travel, and lodging	363	-	363
Wages and benefits	182,416	-	182,416
	$ 333,135	$ 11,680	$ 344,815

	February 28, 2013		
	Tahuehueto	Jocuixtita	Total
Assays, data and maps	$ 18,452	$ -	$ 18,452
Equipment and supplies	84,430	128	84,558
Geological consulting	3,815	-	3,815
Insurance	3,974	-	3,974
Mineral concession taxes, licences, and fees	107,046	16,614	123,660
Project office	135,856	4,180	140,036
Transportation, travel, and lodging	7,370	1,716	9,086
Wages and benefits	241,712	4,295	246,007
	$ 602,655	$ 26,933	$ 629,588

Property investigations

In April 2013 the Company signed a Letter of Intent (LOI) to enter into an agreement to acquire certain assets of a Mexican mining company, including mineral properties and mining equipment. Under the terms of the LOI, the Company was obligated to make three payments to the vendor of US$60,000 each over the LOI term of 90 days. During the LOI period the Company carried out additional due diligence on this mineral property and mining equipment. The Company made the first two scheduled payments totaling $120,707 (US$120,000) before deciding not to proceed with this project.

8. EQUIPMENT

	Vehicles	Camp equipment	Exploration equipment	Computer equipment	Office equipment	Leasehold improve-ments	Total
Cost							
February 29, 2012	$ 76,848	$8,696	$140,888	$38,286	$96,521	$48,978	$410,217
Additions	-	-	516	-	-	-	516
February 28, 2013	76,848	8,696	141,404	38,286	96,521	48,978	410,733
Disposal	(44,023)	-	-	-	-	-	(44,023)
February 28, 2014	$ 32,825	$8,696	$141,404	$38,286	$96,521	$48,978	$366,710
Accumulated amortization							
February 29, 2012	$45,184	$6,310	$120,743	$28,123	$70,402	$45,908	$316,670
Amortization for the year	7,916	716	6,198	3,049	5,224	3,070	26,173
February 28, 2013	53,100	7,026	126,941	31,172	75,626	48,978	342,844
Disposal	(34,729)	-	-	-	-	-	(34,729)
Amortization for the year	6,292	560	4,821	2,318	4,469	-	18,460
February 28, 2014	$24,663	$7,586	$131,763	$33,490	$80,095	$48,978	$326,574
Net book value							
February 28, 2013	$23,748	$1,670	$14,463	$7,113	$20,895	-	$67,889
February 28, 2014	$8,162	$1,110	$9,642	$4,796	$16,426	$ -	$40,136

9. TRADE AND OTHER PAYABLES

The Trade and Other payables amounts are denominated in Canadian dollars and relate to both Canadian and Mexican liabilities to/for suppliers, employees, taxes, and loan interest.

10. LOANS

In Canadian dollars	February 28, 2014	February 28, 2013
Loan #1 - A loan from a director of the Company in the amount of US$100,000 (Cdn$111,000) is unsecured, due on September 29, 2014, and bears interest at a rate of 10% per annum, compounded monthly. In connection with this loan the Company issued the lender 37,125 shares with a value of $17,820 as a loan bonus.[1]	$ 111,000	$ 103,000
Loan #2 - A loan from a director of the Company in the amount of $100,000 is unsecured, due on November 10, 2014, and bears interest at a rate of 10% per annum, compounded monthly. In connection with this loan the Company issued the lender 35,750 shares with a value of $11,440 as a loan bonus.[1]	100,000	100,000
Loan #3 - A loan from a director of the Company in the amount of $100,000 is unsecured, due on December 21, 2014, and bears interest at a rate of 10% per annum, compounded monthly. In connection with this loan the Company issued the lender 35,750 shares with a value of $11,440 as a loan bonus.[1]	100,000	100,000
	311,000	303,000
Unamortized value of loan bonus shares issued, beginning of year	-	(28,123)
Amortized to interest expense during the year	-	28,123
Unamortized value of loan bonus shares, end of year	-	-
Net book value	$ 311,000	$ 303,000

(1) The value of the loan bonus shares was a financing cost and was amortized to interest expense over the initial term of the loan.

(Expressed in Canadian dollars)

11. RECLAMATION AND REMEDIATION PROVISION

		Reclamation and Remediation Provision
Balance, February 28, 2013	$	176,295
Change in liability estimate		7,008
Balance, February 28, 2014	$	183,303

The Company makes full provision for the future cost of site reclamation and remediation on a discounted basis at the time the exploration and evaluation activities take place. The reclamation and remediation provision represents the present value of reclamation and remediation costs relating to exploration and evaluation activities that have occurred to date.

12. SHARE CAPITAL

Authorized:
Unlimited common shares without par value
100,000,000 Class A preference shares with a par value of $1 per share
100,000,000 Class B preference shares with a par value of $5 per share

Fiscal 2014 Transactions

a) Completed a non-brokered private placement of 1,800,000 units of the Company. Each unit was priced at $0.10 per unit for total gross proceeds of $180,000. Each unit was comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance. A value of $72,000 was attributed to the warrants.

b) Completed a non-brokered private placement of 6,760,000 units of the Company. Each unit was priced at $0.05 per unit for total gross proceeds of $338,000. Each unit was comprised of one common share of the Company and one two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance. A value of $101,400 was attributed to the warrants.

c) Completed a non-brokered private placement of 10,000,000 units of the Company. Each unit was priced at $0.05 per unit for total gross proceeds of $500,000. Each unit was comprised of one common share of the Company and one two year transferable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance. A value of $400,000 was attributed to the warrants.

12. SHARE CAPITAL (continued)

Fiscal 2013 Transactions

a) Completed a non-brokered private placement of 1,562,500 units of the Company. Each unit was priced at $0.48 per unit for total gross proceeds of $750,000. Each unit was comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.80 within two years of its date of issuance. A value of $437,500 was attributed to the warrants.

   At February 29, 2012, the Company had received subscription payments of $350,000 relating to this private placement financing and subsequently received the remaining $400,000 proceeds to completed this private placement.

   In connection with this financing the Company paid finders' fees by issuing 75,000 units valued at $36,000, with the same terms as the private placement units.

b) Completed a non-brokered private placement of 4,500,000 units of the Company. Each unit was priced at $0.10 per unit for total gross proceeds of $450,000. A value of $97,000 has been allocated to warrants to reflect the residual value of the warrant portion of the unit. Each unit was comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance. A value of $97,000 was attributed to the warrants.

13. SHARE-BASED PAYMENTS RESERVE

A 2013 Stock Option Plan (the "Plan") was approved by the shareholders on December 19, 2013, at the Company's annual general meeting. Under the Plan, the Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of 5 years. Vesting is not required but may be set on an individual basis as determined by the board of directors.

Share-based payments

During the year ended February 28, 2014 no stock options were granted. During the year ended February 28, 2013 the Company granted 106,250 stock options which vested 100% upon the date of grant. The options have a term of 5 years.

For the year ended February 28, 2013 the total fair value of options granted using the Black-Scholes option pricing model was $16,130. A total of $27,815 was charged to operations; all offset to share-based payments reserve. The weighted average fair value of the options granted during the February 28, 2013 year was $0.02 per option.

During the year ended February 28, 2014, 68,750 options previously issued as share-based payments with a fair value of $32,550 were cancelled without being exercised. During the year ended February 28, 2013 195,625 options previously issued as share-based payments with a fair value of $282,533 expired without being exercised. The previously recorded historical fair value of these options was transferred from reserve to deficit.

(Expressed in Canadian dollars)

13. SHARE-BASED PAYMENTS RESERVE (continued)

Share-based payments (continued)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	February 28, 2014	February 28, 2013
Risk-free interest rate	-	1.49%
Expected life of options/warrants	-	5 Years
Annualized volatility	-	132.43%
Dividend rate	-	0%

As at February 28, 2014 the Company had outstanding stock options as follows:

Number of Options	Number Vested and Exercisable	Exercise Price	Weighted average remaining life (years)	Expiry Date
396,875	396,875	$0.80	0.05	March 20, 2014(1)
53,125	53,125	$0.80	0.17	May 1, 2014(1)
68,750	68,750	$0.80	1.51	September 1, 2015
40,625	40,625	$0.80	1.76	December 1, 2015
603,125	603,125	$0.92	1.93	February 1, 2016
6,250	6,250	$0.80	2.09	April 1, 2016
34,375	34,375	$0.80	2.42	August 1, 2016
62,500	62,500	$0.80	2.59	October 1, 2016
75,000	75,000	$0.80	2.76	December 1, 2016
56,250	56,250	$0.80	3.17	May 1, 2017
50,000	50,000	$0.80	3.51	September 1, 2017
1,446,875	1,446,875		1.51	

(1) Subsequent to the year end, these options expired without being exercised.

(Expressed in Canadian dollars)

13. SHARE-BASED PAYMENTS RESERVE (continued)

Share-based payments (continued)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, February 29, 2012	1,605,000	$ 0.88
Granted	106,250	$ 0.80
Expired/cancelled	(195,625)	$ 0.82
Balance, February 28, 2013	1,515,625	$ 0.85
Expired/cancelled	(68,750)	$ 0.80
Balance, February 28, 2014	1,446,875	$ 0.85
Exercisable, February 28, 2014	1,446,875	$ 0.85

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Warrants

As at February 28, 2014 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Weighted average remaining life (years)	Expiry Date
818,750	$0.80	0.25	June 1, 2014[1]
1,900,000	$0.10	0.92	January 30, 2015
350,000	$0.10	1.00	February 27, 2015
900,000	$0.10	1.04	March 15, 2015
6,760,000	$0.10	1.29	June 13, 2015
10,000,000	$0.05	1.99	February 24, 2016
20,728,750	$0.10	1.54	

(1) Subsequent to the year end, these warrants expired without being exercised.

(Expressed in Canadian dollars)

13. SHARE-BASED PAYMENTS RESERVE (continued)

Warrants (continued)

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 29, 2012	4,070,625	$ 1.04
Granted	3,068,750	$ 0.29
Expired	(3,161,250)	$ 1.04
Balance, February 28, 2013	3,978,125	$ 0.54
Granted	17,660,000	$ 0.07
Expired	(909,375)	$ 1.40
Balance, February 28, 2014	20,728,750	$ 0.10

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the period ended February 28, 2014 included:

a) The reallocation of $32,550 for expired options from share-based payments reserve to deficit.
b) The reallocation of $224,440 for expired warrants from share-based payments reserve to share capital.

Significant non-cash transactions during the period ended February 28, 2013 included:

a) The accrual of share issue costs of $19,076.
b) The issuance of 75,000 units valued at $36,000 for a finder’s fee.
c) The reallocation of $282,533 for expired options from share-based payments reserve to deficit.
d) The reallocation of $96,000 for expired warrants from share-based payments reserve to deficit.
e) The reallocation of $350,000 from share subscriptions received to share capital.

(Expressed in Canadian dollars)

15. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes follows:

		February 28, 2014		February 28, 2013
Loss for the year before incomes taxes	$	(1,382,818)	$	(1,657,888)
Expected income tax (recovery)	$	(358,000)	$	(414,000)
Change in statutory, foreign tax, foreign exchange rates, and other		(90,000)		170,000
Permanent difference		129,000		(9,000)
Share issue costs		(2,000)		(15,000)
Adjustment to prior years provision versus statutory tax returns		144,000		-
Change in unrecognized deductible temporary differences		177,000		268,000
Total income tax (recovery)	$	-	$	-

The significant components of the Company's unrecorded deferred tax assets are as follows:

		February 28, 2014		February 28, 2013
Deferred tax assets (liabilities)				
Exploration and evaluation assets	$	1,136,000	$	1,266,000
Share issue costs and other		72,000		82,000
Allowable capital losses		277,000		266,000
Non-capital losses available for future period		7,074,000		6,768,000
		8,559,000		8,382,000
Unrecognized deferred tax assets		(8,559,000)		(8,382,000)
Net deferred tax assets	$	-	$	-

The significant components of the Company's temporary differences and tax losses are as follows:

		February 28, 2014	Expiry date range
Temporary differences			
Exploration and evaluation assets	$	4,370,000	No expiry date
Share issue costs and other	$	282,000	2034 to 2037
Allowable capital losses	$	1,065,000	No expiry date
Non-capital losses available for future period	$	25,055,000	2015 to 2034

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in Canadian dollars)

16. RELATED PARTY TRANSACTIONS

The Company's related parties consist of key management personnel including individuals who are executive officers and/or directors of the Company, or are directly related to a director of the Company, and a controlling shareholder.

The Company incurred the following fees and expenses in connection with compensation of individuals who are key management and directors.

	February 28, 2014	February 28, 2013
Interest on loans	$ 36,353	$ 51,588[(1)]
Professional fees	84,700	88,000
Salaries and benefits	100,000	117,000
Share-based payments	-	8,956
	$ 221,053	$ 265,544

(1) Including $28,123 charged to interest expense in the year ended February 28, 2013 for the amortized value of loan bonus shares issued in fiscal 2012.

Trade and other payables includes $205,673 (February 28, 2013 - $123,378) owed to related parties.

The Company has received cash advances, net of repayments, from directors as follows:

	Advances
Balance, February 29, 2012	$ 30,000
Advances	210,665
Repayments	(13,500)
Balance, February 28, 2013	227,165
Advances	81,308
Repayments	(115,973)
Balance, February 28, 2014	$ 192,500

These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

The Company has balances owing for three loans from two directors of the Company (Note 10.)

(Expressed in Canadian dollars)

17. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of mineral property interests in Mexico. The total assets attributable to the geographical locations relate primarily to exploration and evaluation assets located in Mexico and equipment located in both Mexico and Canada.

Geographical information is as follows:

		February 28, 2014		February 28, 2013
Capital assets are located in:				
Mexico	$	606,878	$	852,894
Canada		9,783		12,546
	$	616,661	$	865,440

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instrument risk exposure and risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, trade and other payables, advances, and loans approximate their fair value because of the short-term nature of these instruments.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values (continued)

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates.

Foreign currency risk

The Company is exposed to foreign currency risk on currency fluctuations related to monetary items with a settlement currency other than Canadian dollars. The Company operates in foreign jurisdictions which use both the United States Dollar ("US$") and the Mexican Peso ("MXN$"). The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations. The effect of a 1% change in foreign exchange rates would be approximately $9,900.

Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

19. CAPITAL RISK MANAGEMENT

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consist of cash on hand and balances with banks.

There have been no changes to the Company's approach to capital management during the year ended February 28, 2014. The Company is not subject to externally imposed capital requirements.

20. SUBSEQUENT EVENT

The Company initiated a non-brokered private placement of 5,000,000 units of the Company. Each unit is priced at $0.05 per unit for total gross proceeds of $250,000. Each unit is comprised of one common share of the Company and one two-year transferable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance. The Company received share subscriptions of $20,000 during the year ended February 28, 2014, and a further $230,000 was received subsequent to the year end.

Management's Discussion and Analysis

For the Year Ended February 28, 2014

Overview

This Management's Discussion and Analysis (MD&A), dated June 24, 2014, of the financial position and results of operations of Telson Resources Inc. ("Telson") includes its wholly-owned subsidiaries; Samarkand de Mexico S.A. de C.V. ("Samarkand"), Sierra Soleada S.A. de C.V. ("Sierra"), and 531607 BC Ltd.; and its 99% owned subsidiary, Sacramento de la Plata S.A. de C.V. ("Sacramento"), (collectively referred to as the "Company"). The MD&A should be read in conjunction with the consolidated financial statements for the year ended February 28, 2014. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The information in this MD&A contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. (See "Cautionary Notes – Forward-looking Statements" below.)

The Company is in the process of exploring its exploration and evaluation assets (or "mineral properties") and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development, and upon future profitable production.

The Company's certifying officers, based on their knowledge, having exercised reasonable due diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings, and these financial statements together with the other financial information included in these filings. The Board of Directors approves the financial statements and the MD&A and ensures that management has discharged its financial responsibilities. The Board of Directors review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

All amounts are presented in Canadian dollars, which is the Company's functional currency.

Cautionary Notes – Forward-looking Statements

Certain statements included in this MD&A may contain forward-looking statements that relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. These statements include, but are not limited to, statements concerning the future financial and operating performance of the Company and its search for resource properties; the future prices of natural resource based commodities; the estimation of reserves and resources; the realization of reserve estimates; timing of technical reports, scoping studies, and preliminary economic assessments; expected content of scoping studies and preliminary economic assessments; anticipated working-capital requirements; capital expenditures; costs and timing of future exploration; requirements for additional capital; government regulation of resource operations; environmental risks; title disputes or claims; and limitation of insurance coverage.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, general business and economic uncertainties; exploration and resource extraction risks;

uncertainties relating to surface rights; the actual results of current exploration activities; the outcome of negotiations; conclusions of economic evaluations and studies; future prices of natural resource based commodities; increased competition in the natural resource industry for properties, equipment and qualified personnel; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; the risk of arbitrary changes in law; title risks; and the risk of loss of key personnel.

The forward-looking statements contained herein are based on a number of assumptions that the Company believes are reasonable, but may prove to be incorrect. These assumptions include, but are not limited to, assumptions that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for natural resource based commodities develops as expected; that the Company receives regulatory approvals for its exploration projects on a timely basis; that the Company is able to obtain financing for its projects on reasonable terms; that the Company's reserve estimates are within reasonable bounds of accuracy and that the geological, operational and price assumptions upon which they are based are reasonable; and that the Company is able to hire the personnel needed to carry out its business plan.

The foregoing lists of factors and assumptions are not exhaustive. The reader should also consider carefully the matters discussed under the heading "Risks Factors and Uncertainties" elsewhere in this MD&A. Forward-looking statements contained herein are made as of the date hereof (or as of the date of a document incorporated herein by reference, as applicable). No obligation is undertaken to update publicly or otherwise revise any forward-looking statements or the foregoing lists of factors and assumptions, whether as a result of new information, future events or results or otherwise, except as required by law. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

Summary of Operations

Telson's principal business activity is the acquisition and exploration of mineral resource properties. The Company, through its Mexican subsidiaries, has an interest in two mineral exploration properties, the Tahuehueto Project, located in Durango State and the Jocuixtita Property located in Sinaloa State. The Company is a reporting issuer in the provinces of British Columbia and Alberta, Canada, and trades on the TSX Venture Exchange under the symbol "TSN" and on the U.S.A OTC under the symbol "SOHFF". Additional information may be obtained from the Company's web site (www.telsonresources.com) and SEDAR (www.sedar.com).

At the Tahuehueto Project, Telson has identified at least 12 poly-metallic zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres. Telson has completed more than 49,000 metres of drilling in approximately 254 holes since drilling operations started on the Project in January 2005.

In 2010 the Company's subsidiary Samarkand acquired five mining concessions by staking 2,530 hectares plus six mining concessions covering 1,573 hectares through two Purchase and Option Agreements. All concessions are located in the State of Sinaloa, Mexico. Due to the current market conditions the Company terminated the Option agreements in early July 2013 and returned the six mining concession to the vendors. The company retains the five mining concessions acquired by staking and refers to these concessions as the "Jocuixtita Property".

In April 2013 the Company signed a Letter of Intent (LOI) to enter into an agreement with Minera Hestgold S.A. de C.V., ("Hestgold") a Mexican mining company, to acquire certain assets including Hestgold's El Realito mineral properties and mining equipment. Under the terms of the LOI, the Company was obligated to make three payments to the vendor of US$60,000 each over the LOI term of 90 days. During the LOI period the Company carried out additional due diligence on this mineral property and mining equipment. The Company made the first two scheduled payments totaling $120,707 (US$120,000) before deciding not to proceed with this project.

At February 28, 2014 the Company had a working capital deficiency of $1,507,520. The current operations of the Company have primarily been funded by the issuance of capital stock, and loans from related parties. The Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future.

During the year ended February 28, 2014 the Company received additional cash advances of $81,308 from directors of the Company, and made repayments of $115,973. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

On March 15, 2013 completed a non-brokered private placement of 1,800,000 units of the Company. Each unit is priced at $0.10 per unit for total gross proceeds of $180,000.

In June 2013 the Company completed a non-brokered private placement of 6,760,000 units at $0.05 per unit, for total gross proceeds of $338,000.

In February 2014 the Company completed a non-brokered private placement of 10,000,000 units at $0.05 per unit, for total gross proceeds of up to $500,000.

The Company initiated a non-brokered private placement of 5,000,000 units at $0.05 per unit for total gross proceeds of $250,000. The Company received share subscriptions of $20,000 during the year ended February 28, 2014, and a further $230,000 was received subsequent to the year end.

These funds were used for general and administrative expenses, and to fund exploration work at both the Tahuehueto and Jocuixtita mineral properties.

Selected Annual Financial Information:

	2014	2013	2012
Loss for the year	$(1,382,818)	$(1,657,888)	$(3,725,501)
Loss per share	$(0.04)	$(0.06)	$(0.15)
Total assets	$701,820	$986,636	$1,392,839
Long-term debt	$183,303	$176,295	$168,630

Fiscal 2014

In the 2014 fiscal year the Company carried out additional cost cutting measures resulting in almost a $500,000, or 30%, overall reduction in administrative and exploration expenses.

Salaries and benefits declined 35% due to the termination of two employees and a reduction of the CEO salary. The share-based payments expense decreased as the Company did not grant as many new stock options.

Overall consulting fees decreased by 87%, however the Company did engage a former employee as a part-time consultant in the later part of fiscal 2014.

Interest on loan decreased 40% as there was no amortized loan bonus shares expensed in 2014 compared to $28,123 expensed in 2013.

Foreign exchange expense increased by 118% due to the decline of the Canadian dollar vis-à-vis the US dollar, while the Canadian dollar exchange rate remained relatively constant with the Mexican peso.

The company did not have any business promotion or travel expenses, and recorded a recovery of $6,200 from over-accrued business promotion expenses from prior years. Professional, regulatory, and transfer agent fees all decreased as a result of the general decline in business activity.

In fiscal 2014 the Company incurred property investigation costs of $120,707 in connection with its potential acquisition of a Mexican mining company. The Company also terminated its option agreement and recorded a $221,026 write-down its investment in the Jocuixtita property. This is the most significant reason for the reduction in total assets, along with additional amortization of equipment, and the sale of some surplus equipment. There were no similar charges in the comparative 2013 fiscal year.

Long-term debt is the Company's estimated reclamation and remediation obligation in connection with environmental rehabilitation costs on the Tahuehueto property. The changes in the reclamation and remediation obligation are due to foreign exchange adjustments.

Fiscal 2013
In the 2013 fiscal year, exploration expenses decreased by about $1,226,000 while the other operating expenses decreased approximately $844,000.

During the 2012 fiscal year the Company incurred additional consulting and regulatory expenses in connection with a listing on the OTCQX market in the U.S.A. There were no similar expenses in the 2013 fiscal year. Accordingly consulting fees decreased by about $123,000 and regulatory fees decreased by approximately $26,000.

Salaries and benefits changed little in the 2013 fiscal year. The share-based payments expense decreased by $337,000 as the Company did not grant as many new stock options compared to the previous year.

Professional fees decreased by approximately $120,000 in fiscal 2013. This is largely due to the extra costs incurred in the 2012 fiscal year in connection with the Company's switch over to financial reporting under IFRS.

Business promotion and travel was unusually high in the comparative 2012 period as a result of attendance at various trade shows and some private promotional meetings. Due to limited cash resources, the Company has curtailed business promotion activities during the current year. These expenses decreased about $215,000.

Interest on loans increased about $39,000 because in 2012 these loans were only outstanding for a few months compared to a full 12 months in fiscal 2013.

The other general expenses remained relatively consistent with the previous year, with the exception of foreign exchange expense which decreased by about $47,000.

In fiscal 2013 the Company expended a further $603,000 in the Tahuehueto Project and $27,000 in the Jocuixtita Property. At the end of fiscal 2012 the Company had higher refundable taxes receivable and prepaids mostly relating to Mexican taxes. During fiscal 2013 these refundable taxes were received by the Company.

Long-term debt is the Company's estimated reclamation and remediation obligation in connection with environmental rehabilitation costs on the Tahuehueto property. The changes in the reclamation and remediation obligation are due to foreign exchange adjustments.

Selected Quarterly Financial Information:

Fiscal year	**2014**				**2013**			
Fiscal quarter	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Period end date	**Feb 28/14**	**Nov 30/13**	**Aug 31/13**	**May 31/13**	**Feb 28/13**	**Nov 30/12**	**Aug 31/12**	**May 31/12**
Loss for the period	$(210,293)	$(221,869)	$(264,222)	$(686,434)	$(424,727)	$(369,788)	$(403,463)	$(460,155)
Loss per share	$(0.01)	$(0.01)	$(0.01)	$(0.02)	$(0.02)	$(0.01)	$(0.02)	$(0.02)
Total assets	$701,820	$712,217	$813,875	$791,255	$986,636	$968,717	$994,681	$1,262,782
Long-term debt	$183,303	$177,390	$173,229	$177,171	$176,295	$168,411	$163,155	$157,680

The losses for each of the 2014 and 2013 fiscal periods are consistent with the level of business activities during each quarter.

The Company grants stock options which can result in significant charges for share-based payments. These charges are usually allocated over four fiscal quarters, depending on vesting terms. However, there can still be significant quarterly variations in the number and value of options granted from one period to the next. In fiscal 2013, the quarterly losses include share-based payments charges totaling $27,815 compared to $Nil for the 2014 fiscal year. There were no options granted in the 2014 fiscal periods and accordingly no share-based payments charges recorded.

In Q1 2013 loss decreased by about $27,000 compared to the 2012 Q4 period. This was due to decreases in share-based payments, business promotion and travel, office, and regulator fees. While interest, office, and foreign exchange expenses increased. There was also a reduction in consulting expenses as the Company negotiated some fee reductions with certain consultants.

The Q2 2013 loss decreased due to decreases in share-based payments, professional fees; and foreign exchange went from a loss to a gain.

The Q3 2013 loss increased primarily due to increases in professional fees; and foreign exchange went from a gain to a loss.

The Q4 2013 loss is generally consistent with the comparative 2012 period. Interest on loans was higher due to the loans being outstanding for the full quarter in 2013.

The Q1 2014 loss is higher due to the write-down of the $221,026 acquisition costs associated with the termination of the Jocuixtita option agreement, and the $120,707 property investigation charges related to the El Realito property. These two items are partially offset by reductions in most other operating expenses.

The Q2 2014 loss decreased due to decreases in salaries, foreign exchange, and exploration costs.

The Q3 2014 loss decreased as a result of decreases in explorations costs, lower regulatory fees, and a recovery of previously expensed business promotion fees. These decreases were partially offset by higher foreign exchange and consulting expenses.

The Q4 2014 loss decreased as a result of further decreases in explorations costs, professional fees, and insurance expenses. Rent declined as the Company was able to sublet another portion of its Vancouver office space. These decreases were partially offset by higher foreign exchange expenses, while office, regulatory, and transfer agent fees all increased in connection with the Company's AGM held in December 2013.

The long-term debt was the Company's the estimated reclamation and remediation obligation in connection with environmental and reclamation costs on the Tahuehueto property. The reclamation and remediation obligation was determined in direct relation to the area disturbed by the Company's drilling activities. Drilling activities were suspended at Tahuehueto; accordingly no additional reclamation and remediation charge was recorded during the subsequent quarterly periods. The changes in the asset retirement liability are due to foreign exchange adjustments.

Results of Operations

Year ended February 28, 2014

The Company incurred $1,166,546 in exploration, general and administrative expenses during the fiscal 2014 year ended February 28, 2014. Generally, expenses have been consistent with the comparative fiscal 2013 year, except as noted below. After the exclusion of amortization, exploration expenditures, share-based payments, and foreign exchange, total expenses decreased by $211,299 in 2014 compared to the fiscal 2013 year.

Exploration expenditures and evaluation expenses include all costs associated with the exploration and maintenance of the Company's mineral properties. These costs include wages, fuel, camp costs, mineral concession taxes, and associated administrative expenses. A detailed breakdown of these costs is provided in the notes to the February 28, 2014 financial statements. The fiscal 2014 exploration expenditures decreased on the Jocuixtita property; in fiscal 2014 and 2013 as there was little geological work done on the Jocuixtita property. The Tahuehueto property fiscal 2014 exploration expenditures decreased by $269,250 compared to the fiscal 2013 year as the Company tried to cut exploration costs where possible. This included a reduction in the number employees. However these saving were partially offset by one time employee termination payments.

In 2010 the Company's subsidiary Samarkand acquired six mining concessions covering 1,573 hectares through two separate Purchase and Option Agreements. Due to the current market conditions the Company terminated the Option agreements in early July 2013 and returned the six mining concession to the vendors. The company retains the five mining concessions acquired by staking and refers to these concessions as the "Jocuixtita Property". The $221,026 acquisition costs associated with the terminated option agreement were written-off in the year ended February 28, 2014.

In April 2013 the Company signed a Letter of Intent (LOI) to enter into an agreement with Hestgold to acquire certain assets including Hestgold's El Realito mineral properties and mining equipment. Under the terms of the LOI, the Company was obligated to make three payments to the vendor of US$60,000 each over the LOI term of 90 days. During the LOI period the Company carried out additional due diligence on this mineral property and mining equipment. The Company made the first two scheduled payments totaling $120,707 (US$120,000) before deciding not to proceed with this project. These payments have been recorded as Property Investigation costs during the year ended February 28, 2014. There were no similar charges in the comparative 2013 year.

Professional fees include legal, accounting, and audit fees. Legal fees have decreased moderately, while audit and accounting fees have decreased significantly compared to the previous year. In the comparative fiscal 2013 year, audit and accounting fees in were higher largely due to the Company's change in accounting policy for exploration expenses, plus an overall higher volume of transactions compared to fiscal 2014.

Business promotion expenses include fees paid for advertising, development and production of promotional materials, registration fees for trade shows, corporate communication services. Due to limited cash resources, the Company has curtailed business promotion activities during the current year. During the 2014 fiscal year the Company received $6,200 of credits on business promotion expenses charged in prior years.

Travel expenses include the costs of vehicles, airfares, accommodation, and meals for a variety of business trips related to securing financing and meetings, as well as attendance at a trade show. Travel expenses have decreased by $14,982 as the Company has not made any trips to trade shows and financial centres during the year.

Communications expense includes the costs of Telson's news releases, office telephones, fax, mobile phones, web site design and maintenance, web hosting and internet access services. These expenses are mostly consistent with the previous year, except for news releases. There were fewer news releases in the fiscal 2014 year, and this cost decreased accordingly.

Although there was an increase in the rent of the Company's Vancouver office space, this has been partially offset by the Company sub-leasing some surplus office space. This rental revenue has been offset to rent expense.

Salaries and benefits have decreased compared with the fiscal 2013 year. Two employees were terminated during the year and the company's CEO agreed to a 40% reduction in salary.

In May 2011 the Company obtained a listing on the OTCQX stock market in the U.S.A. In connection with this listing the Company agreed to pay consulting fees totaling about for a Principal American Liaison ("PAL") to sponsor the OTCQX membership. The OTCQX listing was terminated in February 2013. During the February 28, 2014 year regulatory and consulting fees were lower as the Company no longer incurred the costs related to the OTCQX listing.

The Company's Tahuehueto project is located in a remote area, a considerable distance from any commercial and business centres. To facilitate the exploration activities on the Tahuehueto property, the Company maintains an office in Durango City, Durango, Mexico. This office oversees the administration of the exploration activities, including the procurement of services, supplies, and equipment from local vendors. As the office exists solely for the benefit of the exploration activities, the costs of maintaining and operating the office have been included with the Tahuehueto exploration costs. These office and administrative costs include personnel salaries, rent, communications, office supplies, and office equipment. In addition to the Durango office, the Company rented warehouse space primarily for the storage of diamond drill core sample materials extracted from the Tahuehueto property. The sample material, reject samples, and pulps are stored here after delivery from the preparation lab. The warehouse is also used to temporarily store supplies and equipment prior to being shipped to the Tahuehueto project. In August 2013 the Company moved to new premises with an office and warehouse combined with an approximate $1,000 monthly savings in rent.

The $50,921 receivables at February 28, 2014 are refundable IVA and GST taxes (value added taxes) due to the Company from the governments of Mexico and Canada. GST refund claims are filed quarterly in Canada, while IVA refund claims are filed monthly in Mexico. The company has successfully received all the refunds claimed in both Canada and Mexico.

Except as may be otherwise indicated, all of the above noted transactions have received regulatory approvals, where required.

Three months ended February 28, 2014 (Q4)

Exploration, general and administrative expenses decreased $212,502 versus the comparative Q4 2013 period, and decreased $11,786 compared to the prior Q3 2014 period as a result of the Company's efforts to reduce all expenses wherever possible.

The most significant difference is a $123,557 reduction in exploration costs compared to Q4 2013 and a $39,926 decrease compared to the prior Q3 2014 period. This is due to the Company's efforts to curtail costs, the most significant being the reductions in the number of its Mexican employees.

Amortization decreased by $3,288 compared to Q4 2013 and the Company recorded a $2,072 gain on disposal of equipment as a result of selling some of its surplus Mexican vehicles and office equipment.

Foreign exchange expense increased as a result of the decline in the Canadian dollar versus the US dollar.

Professional fees decreased by $22,114 over the Q4 2013 period because of a reduction in accounting fees generally due to a reduction in the volume of transactions.

Rent decrease as the Company was able to sublet some surplus space in its Vancouver offices.

Salaries decreased $40,028 compared to Q4 2013 as the Company had one less employee and the CEO agreed to reduce his salary.

Resource Properties and Investments

Tahuehueto Mine Project, Mexico

Overview

Through a 99%-owned Mexican subsidiary, Telson controls 100% of the Tahuehueto project situated in a historic mining district of northwestern Durango State. The 9,081 hectare property covers at least 12 known mineralized zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres.

Tahuehueto lies within the prolific Sierra Madre mineral belt, which hosts a series of historic and producing mines and most of Mexico's active exploration and development projects. The project is situated approximately 100 kilometres southwest of silver mines in the Guanacevi region, and about 25 kilometres north of the silver mines at Topia.

Access to the property is by road, about nine hours from Durango City, or by fixed-wing aircraft to a nearby landing strip. The project site is remote, with only a few small villages in this portion of the Municipality of Tepehuanes. Highway construction initiatives of Mexico's Durango State government provide Telson with the possibility of an alternative and much improved access route for the Tahuehueto project.

Ownership and Access Rights

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Pursuant to share purchase agreements the Company owns, through its wholly-owned Mexican subsidiary Samarkand, 99% of Sacramento, which holds a 100% interest in the Tahuehueto mineral property. Certain core concessions of the property, comprising approximately 1,535 hectares, are subject to a 1.6% net smelter returns royalty.

Pursuant to the share purchase agreements, the Company is obligated to make a final payment of US$200,000 to the remaining two vendors of the Sacramento shares.

Based upon regional reconnaissance work in and around Tahuehueto, Telson staked additional concessions covering approximately 7,018 hectares to encompass most of the prospective ground in the Tahuehueto district. This staking brings Telson's total Tahuehueto project area to 9,081 hectares.

In May 2006, the Company entered into a Surface Rights Agreement with Comunidad La Bufa, the local community residents' formal legal entity. The Surface Rights Agreement has an initial term of ten years expiring in May 2016, and is extendable for an additional five years. The agreement covers the core 2,062 original hectares of the project and allows the Company unrestricted access to explore, develop and mine metals within the area covered under the agreement. Sacramento will make annual payments to Comunidad La Bufa over the term of the agreement, at US$20,000 in the first year with subsequent payments increasing from the previous year's payment by 5% annually. In addition, upon commencement of commercial production the annual payment will be increased by 50% of the previous year's payment.

Exploration Highlights

NI 43-101 Preliminary Economic Assessment

On October 4, 2010 Telson announced the results of a Preliminary Economic Assessment ("PEA") prepared by Snowden Mining Consultants for its Tahuehueto Project. Results demonstrate the possibility for economic returns using three-year rolling average gold, silver and base metal prices. Highlights are as follows:

Summary of PEA Estimates:	
Net cash flow	US$ 184.2 million
Net Present Value (NPV) 5% Discount Rate	US$ 109.6 million
Internal Rate of Return (IRR)	31%
Payback period	27 months
Mine life	11 years
Maximum processing rate per annum	1,000,000 tonnes
Capital & startup costs	US$ 89.1 million

Metal Selling Prices:		
Gold	US$965.81/oz	London PM fix price (Centennial Precious Metals, Inc. 2010)
Silver	US$15.38/oz	London fix price (Silver Institute, 2010)
Copper	US$2.92/lb	LME grade A cathode spot price, CIF European ports (IMF, 2010)
Lead	US$0.95/lb	LME 99.97% pure spot price, CIF European ports (IMF, 2010)
Zinc	US$0.88/lb	LME high grade 98% pure spot price, CIF UK ports (IMF, 2010)

These PEA numbers demonstrate the potential economic viability of the Tahuehueto Project and were calculated from 2009 mineral resource estimate (see below). Significant upside exploration potential exists within the unexplored portions of the current resource structures, both along strike and down dip, as well as in the many other separate mineralized structures known to occur, but yet unexplored, within the project concessions. Management is confident that with additional exploration and development the projected 11 year mine life outlined in the PEA could be significantly extended.

The PEA was prepared by Snowden in accordance with the requirements of Canadian National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101"). It contemplates a combination of an open pit operation at the El Creston Zone along with underground operations at Cinco de Mayo, El Creston and El Rey, utilizing mechanized low-cost Long Hole Open Stope ("LHOS") mining methods. Metallurgical test work, as previously disclosed, indicates that sulfide flotation methodology will produce separate copper, lead and zinc concentrates.

Snowden recommended that Telson continues with its evaluation of the Tahuehueto Project and progresses towards undertaking a Prefeasibility Study to address the remaining material project uncertainties.

Resource estimation recommendations:

- Undertake a study based on the existing data to determine appropriate drill hole spacing and orientation with an aim to increase the confidence in the resource classification to ensure sufficient Measured and Indicated Resource so that upon completion of a Prefeasibility Study these can be converted to Reserves.
- Undertake a drilling program at a spacing and orientation recommended by the drill hole spacing study so that more of the resource can be classified as Measured or Indicated which may then be converted into Reserves after completion of a Prefeasibility Study.
- Review the resource confidence classification criteria for future resource estimates and ensure that all aspects affecting confidence in the resource estimation are considered, including geological understanding, complexity, and continuity, the sample data density and orientation (including sample grades and bulk density data), the data accuracy and precision as established through the QAQC programs, grade continuity including the spatial continuity of mineralization, the quality of the estimates, and the results of the estimation validation.

Metallurgical

- Assess the use of alternative depressants and alternative addition rates in the bulk rougher circuit
- Assess alternative depressants in the copper-lead separation stage
- Determine the role of finer primary grinding on zinc selectivity in the bulk rougher flotation stage. That may lead to the use of zinc depressants in the bulk cleaner circuit in an attempt to divert more of the zinc to the zinc concentrate.
- Assess the role of regrinding
- Conduct Work Index testing
- Undertake tests to determine the processing variability between the “fresh” and the “supergene” zones and the effect of randomly comingling of ore types.

Other

- Undertake a program of geotechnical logging, testing and analysis so that the potential of an open pit at Cinco de Mayo can be established (which would substantially increase the value of the project), and that better definition of underground and open pit geotechnical design criteria can be achieved
- After completion of the recommended program of data collection, embark on a Prefeasibility Study where construction and operating costs can be defined more accurately so that reserves can be calculated and some trade-off studies undertaken.

NI 43-101 Resource Calculation
In 2009 the Company released the results of the updated NI 43-101 compliant mineral resource estimate. This 2009 resource estimation was prepared by Scott E. Wilson Consulting, Inc. (“Wilson Consulting”) based in Englewood, Colorado. This 2009 resource estimate is an upgrade to the Company’s 2008 initial resource and is based upon detailed geological modeling of veins and stock-work zones that was not available for the initial resource estimate, plus 71 new drill holes targeting down-dip and along strike extensions of known mineralization.

2009 Tahuehueto Resource Calculation Highlights

Measured and Indicated Resources 7,377,000 Tonnes		Inferred Resource 4,868,000 Tonnes	
• 2.10 g. Au/t	498,000 ounces Au	• 1.06 g. Au/t	166,000 ounces Au
• 34.97 g. Ag/t	8,294,000 ounces Ag	• 31.77 g. Ag/t	4,971,000 ounces Ag
• 0.28% Cu	45,339,000 lbs. Cu	• 0.23% Cu	24,935,000 lbs. Cu
• 1.06% Pb	172,738,000 lbs. Pb	• 1.13% Pb	132,417,000 lbs. Pb
• 2.01% Zn	326,653,000 lbs. Zn	• 2.26% Zn	242,241,000 lbs. Zn

The Tahuehueto Resource is categorized into Measured, Indicated and Inferred Resources as follows:

			Gold (Au)		Silver (Ag)		Copper (Cu)		Lead (Pb)		Zinc (Zn)	
Category		**Tonnes (,000's)**	**g/t**	**Oz. (,000's)**	**g/t**	**Oz. (,000's)**	**Cu%**	**Lbs. (,000's)**	**Pb%**	**Lbs. (,000's)**	**Zn%**	**Lbs. (,000's)**
Measured	26%	3,254	2.40	251	36.30	3,798	0.28	20,439	1.10	79,228	2.07	148,759
Indicated	34%	4,123	1.87	248	33.92	4,496	0.27	24,900	1.03	93,511	1.96	177,894
Total M&I	60%	7,377	2.10	498	34.97	8,294	0.28	45,339	1.06	172,738	2.01	326,653
Inferred	40%	4,868	1.06	166	31.77	4,971	0.23	24,935	1.23	132,417	2.26	242,241

The cutoff grades used to determine the above mineral resources were 2 grams per ton AuEQ for sulfide mineralization and 3 grams per ton AuEQ for oxide mineralization since the potential costs to extract oxide material may be higher than the cost to process sulfide mineralization. Approximately 10% of the resource is oxide mineralization and therefore only a minor part of the resource.

The metal prices used to determine the gold equivalent grade for cutoff purposes only were $800 per ounce for gold, $12.00 per ounce for Silver, $2.10 per pound for copper, $0.65 per pound for lead and $0.70 per pound for zinc. Gold-equivalent grades are used for cutoff purposes only.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Converting resource estimates into economic reserves may be materially affected by the inability to obtain required environmental and other regulatory approval, environmental or operating permits and may also be materially affected by global economic conditions such as the price of gold, silver, copper, lead, zinc, the price of oil and other commodities utilized in the mine production. Unknown geologic or hydrologic conditions or other unknown factors may also materially affect converting resource estimates into reserves.

Exploration Activities

Telson's exploration programs have significantly enhanced the overall potential of the Tahuehueto property. To date Telson has completed more than a cumulative total of 49,000 metres of drilling in approximately 254 drill holes at Tahuehueto to define priority zones occurring within a district-scale epithermal system traced for at least six kilometres at Tahuehueto. The bulk of 2007/2008 drilling was focused on resource definition within five priority zones.

As outlined above, the Company is continuing to collect environmental date collection at the project site and will, when properly funded, continue its exploration and engineering data collection program at Tahuehueto to advance the project through prefeasibility studies, including:

- Geotechnical slope stability studies at the Cinco de Mayo zone to prove the stability of the above cliff face so the zone may be brought into the open pit mining plan.
- Core drilling as required to upgrade the inferred resource into the measured and indicated resources category. Four infill core drill holes have been completed to date, all in the Cinco De Mayo zone.
- Pre-feasibility level engineering design of mine facilities including waste rock and tailing's facilities and infrastructure.

Knight Piésold Ltd was retained by Telson to conduct geotechnical and water/waste management design studies for the Tahuehueto Project. This work is the first step towards completing a prefeasibility study for the Tahuehueto Project as identified in the PEA.

Knight Piésold has presented the company with a technical report for the first phase of work. This report contains a recommended Mine Development Concept ("MDC") for the pre-feasibility base case design based on the PEA and the findings of Knight Piésold's geotechnical site review. This MDC envisions a combined tailings and waste rock dump that integrates the waste rock management and the tailings management. Knight Piesold also provided preliminary recommendations for open pit slopes at the Cinco de Mayo zone, based upon findings of initial field inspections of the cliff faces and rock exposures in and around the Cinco De Mayo Zone.

The Company continues to collect environmental data required to support prefeasibility studies and feasibility studies for future mine planning is ongoing with data continuously being collected.

Please refer to the Company's web site at www.telsonresources.com for the full details of the Snowden PEA, the 2009 resource estimate report, and the Knight Piésold report.

Environment and Community

Telson conducts its exploration and development activities in a socially and environmentally progressive manner consistent with the principles of Sustainable Development. Particular emphasis is placed on establishing good relationships with community leaders and residents, as well as state authorities to ensure citizens are kept informed of the Company's exploration activities.

As the Tahuehueto project advances from exploration and development to the pre-feasibility stage, environmental baseline studies will lay the foundation for more detailed programs examining all aspects of potential mine development to ensure the highest standards of environmental protection. The Company will continue to comply with all regulations and closely monitor its activities to minimize damage to the ecosystem.

Telson participates in a range of social initiatives in support of local communities, and has already helped to establish a local school and improve electrical, water supply and sanitation facilities. Telson established a medical clinic on the project site which services the crew and is available to the local populace. Local hiring and procurement policies have been adopted to ensure that benefits flow to the communities and region surrounding the project.

Jocuixtita Property, Mexico

Ownership and Access Rights

The Jocuixtita Property consists of five contiguous mining concessions covering a cumulative area of 2,530 hectares located near to the town of San Ignacio and is approximately 120 km north from the city of Mazatlan, State of Sinaloa, Mexico. The property is road accessible from San Ignacio and is close to all necessary infrastructures for further development. The concessions cover an area that is underlain by favourable geology containing alteration often associated with porphyry copper-gold systems. These concessions are considered as very early stage exploration targets and the Company has conducted early stage geological mapping and limited surface rock sampling.

In early July 2013, due to market conditions, the Company terminated its option agreements with two separate vendors concerning six mining concessions covering 1,573 hectares. The Company still holds 2,530 hectares of mineral properties staked by its subsidiary Samarkand.

Jocuixtita Exploration Activities

The Company is not planning any exploration of these concessions at this point in time and will re-evaluate these concessions once market conditions and access to capital improves.

El Realito Project

On April 13, 2013 the Company announced that its subsidiary Samarkand had entered into a "Contrato de Promesa", the Mexican equivalent of a Canadian Letter of Intent, with Minera Hestgold S.A. de C.V. ("Hestgold") (the "LOI"). The LOI outlined the major terms and conditions whereby Samarkand and Hestgold would develop and operate the El Realito Project (the "Realito Project"), an open pit mining facility located near Culiacan, Sinaloa, Mexico.

The LOI had a term of three months and allowed for a 45 day Due Diligence period and three monthly payments of US$60,000 each to be made to Hestgold. The Company made two US$60,000 payments, to Hestgold. As a result of the Company's due diligence the Company elected to terminate the LOI and not proceed with the acquisition.

The Company will continue attempts to identify and acquire additional high quality exploration projects that will allow continued corporate growth. This search is primarily being conducted in Mexico but the Company would not rule out acquisitions in other jurisdictions depending upon the quality of a potential acquisition opportunity.

Corporate, General, and Administrative

Directors and Officers

At the Company's Annual General Meeting (the "AGM") held on December 19, 2013, shareholders elected the following individuals as directors of the Company:

Ralph Shearing	John Lynch
Yao Sun	Lianxi Zhang
John Anderson	

At a subsequent directors meeting, the following director and officer appointments were made:

Audit Committee – Ralph Shearing, John Anderson, and John Lynch
Human Resources & Compensation Committee – John Lynch and John Anderson
Advisory Board – Arthur Freeze, Paul Chung and Jaime E. Gonzalez
President, Secretary, and Chief Executive Officer – Ralph Shearing
Chief Financial Officer - Donald Crossley
Vice President Asia Pacific Region – Yao Sun

Management Agreements

In October 2007 the Company entered into an employment contract with Ralph Shearing to provide general management services to the Company for a monthly fee of $13,333 and was granted 400,000 share purchase options. Mr. Shearing is the CEO and a Director of the Company. In January 2009, in light of the poor junior capital markets and the Company's restricted cash resources, Mr. Shearing agreed to reduce his monthly salary by 25% to $10,000 per month. Effective July 1, 2013 Mr. Shearing agreed to further reduce his monthly salary to $6,000.

On April 1, 2010, the Company entered into an employment contract with Mr. Yu Sun, who is related to Mr. Yao Sun, a Director of the Company. Under the terms of the employment contract, Mr. Yu Sun will assist the Company with its business development plans in China and is paid a salary of $3,000 per month. This employment agreement was terminated effective July 1, 2013.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. These agreements have received regulatory approval where required.

Financing Activities

On March 15, 2013 completed a non-brokered private placement of 1,800,000 units of the Company. Each unit was priced at $0.10 per unit for total gross proceeds of $180,000. Each unit was comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance.

On June 13, 2013 completed a non-brokered private placement of 6,760,000 units of the Company. Each unit was priced at $0.05 per unit for total gross proceeds of $338,000. Each unit was comprised of one common share of the Company and one two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance.

On February 24, 2014 completed a non-brokered private placement of 10,000,000 units of the Company. Each unit was priced at $0.05 per unit for total gross proceeds of $500,000. Each unit was comprised of one common share of the Company and one two year transferable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance.

The Company initiated a non-brokered private placement of 5,000,000 units of the Company. Each unit is priced at $0.05 per unit for total gross proceeds of $250,000. Each unit is comprised of one common share of the Company and one two-year transferable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.10 within two years of its date of issuance. The Company received share subscriptions of $20,000 during the year ended February 28, 2014, and a further $230,000 was received subsequent to the year end. These units have not yet been issued and this transaction is subject to regulatory approval.

At February 28, 2013 the Company had received cash advances totalling $227,165 from directors of the Company. During the year ended February 28, 2014 the Company received additional cash advances of $81,308 from directors of the Company, and made repayments of $115,973. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

Share Capital, Warrants, and Stock Options

Share Capital

At June 24, 2014, there have been no changes in the issued share capital from the information provided in the February 28, 2014 financial statements.

Warrants

At June 24, 2014, there have been the following changes in the warrants outstanding from the information provided in the February 28, 2014 financial statements:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2014	20,728,750	$ 0.10
Expired - June 1, 2014	(818,750)	$ 0.80
Balance, June 24, 2014	19,910,000	$ 0.07

Stock Option Plan

A 2013 Stock Option Plan (the “Plan”) was approved by the shareholders on December 19, 2013, at the Company’s annual general meeting. Under the Plan, the Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of 5 years. Vesting is not required but may be set on an individual basis as determined by the board of directors.

No stock options were granted during year ended February 28, 2014. The company cancelled 6,250 options upon the termination of an employee and 62,500 options expired during the year ended February 28, 2014.

At June 24, 2014, there have been the following changes in the stock options from the information provided in the February 28, 2014 financial statements:

	Number of Options	Weighted Average Exercise Price
Balance, February 28, 2014	1,446,875	$ 0.85
Expired - March 20, 2014	(396,875)	$0.80
Expired - May 1, 2014	(53,125)	$0.80
Balance, February 28, 2014	996,875	$ 0.87

Liquidity

At February 28, 2014, the Company had a working capital deficiency of $1,507,520.

During the year ended February 28, 2014 the Company received additional cash advances of $81,308 from directors of the Company, and made repayments of $115,973. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

On March 15, 2013 completed a non-brokered private placement of 1,800,000 units of the Company. Each unit is priced at $0.10 per unit for total gross proceeds of $180,000.

In June 2013 the Company completed a non-brokered private placement of 6,760,000 units at $0.05 per unit, for total gross proceeds of $338,000.

In February 2014 the Company completed a non-brokered private placement of 10,000,000 units at $0.05 per unit, for total gross proceeds of up to $500,000.

The Company initiated a non-brokered private placement of 5,000,000 units at $0.05 per unit for total gross proceeds of $250,000. The Company received share subscriptions of $20,000 during the year ended February 28, 2014, and a further $230,000 was received subsequent to the year end.

These funds were used for general and administrative expenses, and to fund exploration work and maintenance of both the Tahuehueto and Jocuixtita mineral properties.

This financing will provide funds both for the Company to continue its exploration activities and for general working capital purposes. However the Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the near future. Due to financial market conditions affecting the junior resource public company markets, the Company may not be able to secure additional financing.

Investor Relations

The Company does not have any investor relations agreements. All investor relations activities are currently handled by employees of the Company.

Related Party Transactions

In addition to certain related party transactions mentioned above, the Company had additional significant transactions with related parties, as are summarized below.

The Company's related parties consist of individuals who are executive officers and/or directors of the Company, or are directly related to a director of the Company. Related parties who had transactions with the Company during fiscal years 2013 and 2014 are as follows:

Name	Nature of transaction
Ralph Shearing, CEO, Director	Salary, cash advances
Donald Crossley, CFO	Professional fees
Yu Sun, related to a director	Salary
John Lynch, Director	Interest on loans
Lianxi Zhang, Director	Interest on loans, cash advances
Yao Sun, Director	Cash advances

The Company incurred the following fees and expenses in connection with compensation of individuals who are key management and directors.

		February 28, 2014		February 28, 2013
Interest on loans	$	36,353	$	51,588 (1)
Professional fees		84,700		88,000
Salaries and benefits		100,000		117,000
Share-based payments		-		8,956
	$	221,053	$	265,544

(1) Including $28,123 charged to interest expense in the year ended February 28, 2013 for the amortized value of loan bonus shares issued in fiscal 2012.

Trade and other payables includes $205,673 (February 28, 2013 - $123,378) owed to related parties.

The Company has received cash advances, net of repayments, from directors as follows:

	Advances
Balance, February 29, 2012	$ 30,000
Advances	210,665
Repayments	(13,500)
Balance, February 28, 2013	227,165
Advances	81,308
Repayments	(115,973)
Balance, February 28, 2014	$ 192,500

These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

The Company has balances owing of $311,000 for three loans from two directors of the Company (see financial statement Note 10). At February 28, 2014 there is $80,423 of interest payable with respect to these loans.

The Company has an employment contract with Mr. Ralph Shearing, who is the CEO and a director of the Company. Under the terms of the employment contract, Mr. Shearing is paid a salary of $10,000 per month. During the year ended February 28, 2014 the Company paid or accrued a salary of $52,000 (November 30, 2012- $60,000) with respect to this employment contract. At February 28, 2014 there is $61,000 of salaries payable under this agreement. Effective July 1, 2013 Mr. Shearing agreed to reduce his monthly salary to $6,000.

On April 1, 2010, the Company entered into an employment contract with Mr. Yu Sun, who is related to Mr. Yao Sun, a Director of the Company. Under the terms of the employment contract, Mr. Yu Sun will assist the Company with its business development plans in China and is paid a salary of $3,000 per month. During the year ended February 28, 2014 the Company paid or accrued a salary of $12,000 (November 30, 2012- $18,000) with respect to this employment contract. At February 28, 2014 there is $33,000 of salaries payable under this agreement. This employment agreement was terminated effective July 1, 2013.

The Company paid professional fees of $84,700 (February 28, 2013 - $88,000) to Mr. Donald Crossley, an officer of the Company. Mr. Crossley is a chartered accountant and the chief financial officer of the Company, and as such provides the company with general management, administrative, financial, and accounting services. At February 28, 2014 there is $21,250 of professional fees payable.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties.

Risk Factors and Uncertainties

The Company's ability to generate revenue and profit from its natural resource properties, or any other resource property it may acquire, is dependent upon a number of factors, including, without limitation, the following:

Precious and Base Metal Price Fluctuations
The Company's ability to finance its mineral property acquisition, exploration and eventual development is dependent upon the market price of certain precious and base metals. The price of such metals has fluctuated widely and is affected by numerous economic and political factors, consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and productivity, metal substitutes and stock levels. These fluctuations may result in the Company not receiving an adequate return on invested capital or the investment retaining its value.

Operating Hazards and Risks
Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries liability insurance; however any liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

Exploration and Development
There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few exploration properties are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any commercially viable discoveries.

Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes and the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection.

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery
There is a degree of uncertainty attributable to the calculation of reserves and mineralization and corresponding grades being mined or dedicated to future production. In addition, there can be no assurance that precious or other metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Government Regulation
Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as environmental protection, health, safety and labour; mining law reform; restrictions on production; price controls; tax increases; maintenance of claims; tenure; and expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Environmental Factors
All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving and requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on the Company's properties, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Climate Change
The Company’s current business and exploration activities are not a significant contributor to the greenhouse gases that are commonly believed to be responsible for climate change and a source of adverse weather patterns. The Company does not currently believe climate change will have a significant impact on its future operations. However there is no assurance that future changes in the environment resulting from climate change will not adversely affect the Company's operations.

Title to Assets
Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt.

The Company's claims may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Changes in Accounting Policies

There have been no changes to accounting policies from those applied in preparing the consolidated financial statements for the year ended February 28, 2013, except for the adoption of the following IFRS standards:

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Ventures
- IFRS 11 – Disclosure of Interest in Other Entities
- IFRS 13 – Fair Value Measurement
- IFRS 27 – Separate Financial Statements
- IFRS 28 – Associates and Joint Ventures

The adoption of the above standards did not have an impact on the financial statements.

New standards, interpretations and amendments not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are not yet effective as of February 28, 2014 and have not been applied in preparing these consolidated financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Effective for annual periods beginning on or after January 1, 2014:

IFRS 10, IFRS 12, IAS 27, *Exception from Consolidation for “Investment Entities”*

IFRS 10 is amended to define an “investment entity” and introduce an exception from consolidation for investment entities. IFRS 12 and IAS 27 are amended to introduce disclosures than an investment entity needs to make.

IAS 32, *Financial Instruments: Presentation*

IAS 32 is amended to clarify requirements for offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2015:

<u>IFRS 7, *Financial Instruments – Disclosure*</u>

Amended to require additional disclosures on transition from IAS 39 to IFRS 9.

Effective (proposed) for annual periods beginning on or after January 1, 2018:

<u>IFRS 9, *Financial Instruments – Classification and Measurement*</u>

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

Financial Instruments

Financial instrument risk exposure and risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, trade and other payables, advances, and loans approximate their fair value because of the short-term nature of these instruments.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates.

Foreign currency risk

The Company is exposed to foreign currency risk on currency fluctuations related to monetary items with a settlement currency other than Canadian dollars. The Company operates in foreign jurisdictions which use both the United States Dollar ("US$") and the Mexican Peso ("MXN$"). The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations. The effect of a 1% change in foreign exchange rates would be approximately $9,900.

Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Capital Risk Management

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consist of cash on hand, balances with banks and investments in highly liquid instruments. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents and the fair value approximates carrying value.

There have been no changes to the Company’s approach to capital management during the year ended February 28, 2014. The Company is not subject to externally imposed capital requirements.