



TELSON RESOURCES INC.

FINANCIAL REPORTS:

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

Six months ended

August 31, 2014

TELSON RESOURCES INC.
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS

Under the National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Telson Resources Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of the Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

TELSON RESOURCES INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Expressed in Canadian dollars)

	August 31, 2014	February 28, 2014
ASSETS		
Current assets		
Cash (Note 4)	\$ 2,975	\$ 22,380
Receivables (Note 5)	47,555	50,921
Prepaid expenses and advances (Note 6)	3,033	11,858
	53,563	85,159
Exploration and evaluation assets (Note 7)	576,525	576,525
Equipment (Note 8)	34,960	40,136
	\$ 665,048	\$ 701,820
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Trade and other payables (Note 9)	\$ 960,131	\$ 867,179
Advances (Note 16)	217,500	192,500
Loans (Note 10)	309,000	311,000
Obligation under share purchase agreement (Note 7)	216,000	222,000
	1,702,631	1,592,679
Non-current liabilities		
Reclamation and remediation provision (Note 11)	181,989	183,303
	1,884,620	1,775,982
Shareholders' deficiency		
Share capital (Note 12)	44,152,949	43,694,449
Share subscriptions received	305,000	20,000
Share-based payments reserve (Note 13)	1,256,352	1,895,962
Deficit	(46,933,873)	(46,684,573)
	(1,219,572)	(1,074,162)
	\$ 665,048	\$ 701,820

Nature of operations and going concern (Note 1)**On behalf of the Board:**

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

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

TELSON RESOURCES INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian dollars)

	Three months ended August 31,		Six months ended August 31,	
	2014	2013	2014	2013
EXPENSES				
Amortization	\$ 2,588	\$ 4,272	\$ 5,176	\$ 10,932
Communications	1,639	3,673	3,468	9,578
Consulting and financial services	5,250	-	10,500	-
Exploration and evaluation expenditures (Note 7)	153,803	106,699	203,035	244,687
Foreign exchange loss (gain)	(3,732)	3,006	(13,388)	20,042
Insurance	-	9,500	4,144	19,139
Interest and finance charges	43	466	66	915
Interest on loans	10,135	9,024	20,052	17,767
Office and miscellaneous	11,670	7,920	18,009	11,059
Professional fees	43,562	50,805	84,904	102,829
Property investigations (Note 7)	-	-	-	120,707
Regulatory fees	2,204	3,220	3,229	3,745
Rent	5,440	23,548	16,640	47,877
Salaries and benefits	36,234	40,691	72,256	116,659
Transfer agent	1,158	1,418	2,363	4,020
	(269,994)	(264,242)	(430,454)	(729,956)
Write-down of exploration and evaluation assets	-	-	-	(221,026)
Interest income	-	20	44	326
Loss and comprehensive loss for the period	\$ (269,994)	\$ (264,222)	\$ (430,410)	\$ (950,656)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding	49,696,616	38,814,877	49,696,616	35,738,790

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

TELSON RESOURCES INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited - Expressed in Canadian dollars)

	Three months ended August 31,		Six months ended August 31,	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (269,994)	\$ (264,222)	\$ (430,410)	\$ (950,656)
Items not affecting cash				
Amortization	2,588	4,272	5,176	10,932
Unrealized foreign exchange loss (gain)	(2,066)	(943)	(9,314)	8,933
Write-down of exploration and evaluation assets	-	-	-	221,026
Changes in non-cash working capital items:				
Receivables	4,768	(7,719)	3,366	(779)
Prepaid expenses and advances	8,596	1,934	8,824	1,342
Trade and other payables	143,675	(95,176)	92,952	(103,683)
Net cash used in operating activities	(112,433)	(361,854)	(329,405)	(812,885)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of common shares	-	50,000	-	518,000
Share issue costs	-	(5,040)	-	(6,690)
Share subscriptions received	55,000	400,000	285,000	400,000
Advances (repayments)	25,000	(62,000)	25,000	(38,665)
Net cash from financing activities	80,000	382,960	310,000	872,645
Change in cash during the period	(32,433)	21,106	(19,405)	59,760
Cash, beginning of period	35,408	65,536	22,380	26,882
Cash, end of period	\$ 2,975	\$ 6,976	\$ 2,975	\$ 86,642

Supplemental disclosure with respect to cash flows (Note 14)

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

TELSON RESOURCES INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

(Unaudited - Expressed in Canadian dollars)

For the Six months ended August 31, 2014 and 2013

	Issued Number of Shares	Share Amount	Share Sub- scriptions Received	Share- based payments reserve	Deficit	Total
Balance, February 28, 2014	49,696,616	\$ 43,694,449	\$ 20,000	\$ 1,895,962	\$ (46,684,573)	\$ (1,074,162)
Share-based payments - option expiry (Note 13)	-	-	-	(181,110)	181,110	-
Share-based payments - warrants expiry (Note 13)	-	458,500	-	(458,500)	-	-
Share units subscriptions received	-	-	285,000	-	-	285,000
Loss and comprehensive loss for the period	-	-	-	-	(430,410)	(430,410)
Balance, August 31, 2014	49,696,616	\$ 44,152,949	\$ 305,000	\$ 1,256,352	\$ (46,933,873)	\$ (1,219,572)
Balance, February 28, 2013	31,136,616	\$ 43,032,599	\$ -	\$ 1,579,552	\$ (45,334,305)	\$ (722,154)
Share units issued (Note 12)	8,560,000	344,600	-	173,400	-	518,000
Share units issue costs (Note 12)	-	(6,690)	-	-	-	(6,690)
Share units subscriptions received	-	-	400,000	-	-	400,000
Share-based payments - option expiry (Note 13)	-	-	-	(2,400)	2,400	-
Share-based payments - warrants expiry (Note 13)	-	224,440	-	(224,440)	-	-
Loss and comprehensive loss for the period	-	-	-	-	(950,656)	(950,656)
Balance, August 31, 2013	39,696,616	\$ 43,594,949	\$ 400,000	\$ 1,526,112	\$ (46,282,561)	\$ (761,500)

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

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

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 condensed interim consolidated financial statements of the Company as at and for the period ended August 31, 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 condensed interim 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 condensed interim 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.

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

2. BASIS OF PRESENTATION**Statement of compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") 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"). The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended February 28, 2014. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's February 28, 2014 annual consolidated financial statements.

These condensed interim consolidated financial statements were approved by the Board of Directors on October 30, 2014.

Basis of consolidation

These condensed interim 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.

3. SIGNIFICANT ACCOUNTING POLICIES**New accounting policies adopted**

The following standards and amendments to existing standards have been adopted by the Company effective March 1, 2014:

- IFRS 10, IFRS 12, and IAS 27 – *Exception from Consolidation for "Investment Entities"*
- IAS 32 – *Financial Instruments: Presentation*

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

TELSON RESOURCES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2015:

IFRS 7, *Financial Instruments – Disclosure*

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:

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.

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 fees due for the 2014 fiscal year of US\$28,141 and 2015 fiscal year of US\$29,548 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 2015 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	\$576,525	\$221,026	\$797,551
Write-down of exploration and evaluation assets	-	(221,026)	(221,026)
Acquisition costs; August 31, 2014 and February 28, 2014	\$576,525	\$ -	\$576,525

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - 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:

	August 31, 2014		
	Tahuehueto	Jocuixtita	Total
Mineral concession taxes, licences, and fees	\$ 136,012	\$ 15,175	\$ 151,187
Project office	26,059	-	26,059
Wages and benefits	25,789	-	25,789
	\$ 187,860	\$ 15,175	\$ 203,035

	August 31, 2013		
	Tahuehueto	Jocuixtita	Total
Assays, data and maps	\$ 7,513	\$ -	\$ 7,513
Equipment and supplies	14,865	-	14,865
Insurance	1,736	2,610	4,346
Mineral concession taxes, licences, and fees	22,238	8,418	30,656
Project office	50,186	695	50,881
Transportation, travel, and lodging	322	-	322
Wages and benefits	136,104	-	136,104
	\$ 232,964	\$ 11,723	\$ 244,687

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.

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

8. EQUIPMENT

	Vehicles	Camp equipment	Exploration equipment	Computer equipment	Office equipment	Leasehold improvements	Total
Cost							
February 28, 2014 and August 31, 2014	\$32,825	\$8,696	\$141,404	\$38,286	\$96,521	\$48,978	\$366,710
Accumulated amortization							
February 28, 2014	\$24,663	\$7,586	\$131,763	\$33,490	\$80,095	\$48,978	\$326,574
Amortization for the period	1,064	176	1,518	748	1,670	-	5,176
August 31, 2014	\$25,727	\$7,762	\$133,281	\$34,238	\$81,765	\$48,978	\$331,750
Net book value							
February 28, 2014	\$8,162	\$1,110	\$9,642	\$4,796	\$16,426	\$-	\$40,136
August 31, 2014	\$7,098	\$934	\$8,123	\$4,048	\$14,756	\$-	\$34,960

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	August 31, 2014	February 28, 2014
Loan #1 - A loan from a director of the Company in the amount of US\$100,000 (Cdn\$108,000) 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.	\$ 109,000	\$ 111,000
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.	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.	100,000	100,000
	\$ 309,000	\$ 303,000

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

11. RECLAMATION AND REMEDIATION PROVISION

		Reclamation and Remediation Provision
Balance, February 28, 2014	\$	183,303
Change in liability estimate		(1,314)
Balance, August 31, 2014	\$	181,989

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 2015 Transactions

No shares were issued during the period ended August 31, 2014.

At August 31, 2014, 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 a one 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 one year of its date of issuance. At August 31, 2014, this private placement financing was over-subscribed; the Company had received subscription payments of \$305,000. These units have not yet been issued and this transaction is subject to regulatory approval.

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)**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 is priced at \$0.05 per unit for total gross proceeds of \$338,000. Each unit is 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.
- c) Initiated a non-brokered private placement of 10,000,000 units of the Company. Each unit is priced at \$0.05 per unit for total gross proceeds of \$500,000. 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 \$0.05 within two years of its date of issuance. At August 31, 2013, the Company had received subscription payments of \$400,000 relating to this private placement financing.

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 periods ended August 31, 2014 and 2013 no stock options were granted.

During the period ended August 31, 2014, 450,000 options previously issued as share-based payments with a fair value of \$181,110 expired without being exercised. The previously recorded historical fair value of these options was transferred from reserve to deficit.

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

13. SHARE-BASED PAYMENTS RESERVE (continued)**Share-based payments (continued)**

As at August 31, 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
68,750	68,750	\$0.80	1.00	September 1, 2015
40,625	40,625	\$0.80	1.25	December 1, 2015
603,125	603,125	\$0.92	1.42	February 1, 2016
6,250	6,250	\$0.80	1.59	April 1, 2016
34,375	34,375	\$0.80	1.92	August 1, 2016
62,500	62,500	\$0.80	2.09	October 1, 2016
75,000	75,000	\$0.80	2.25	December 1, 2016
56,250	56,250	\$0.80	2.67	May 1, 2017
50,000	50,000	\$0.80	3.01	September 1, 2017
996,875	996,875		1.66	

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, February 28, 2013	1,515,625	\$ 0.85
Expired/cancelled	(68,750)	\$ 0.80
Balance, February 28, 2014	1,446,875	\$ 0.85
Expired/cancelled	(450,000)	\$ 0.80
Balance, August 31, 2014	996,875	\$ 0.87
Exercisable, August 31, 2014	996,875	\$ 0.87

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

13. SHARE-BASED PAYMENTS RESERVE (continued)**Warrants**

As at August 31, 2014 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Weighted average remaining life (years)	Expiry Date
1,900,000	\$0.10	0.42	January 30, 2015
350,000	\$0.10	0.49	February 27, 2015
900,000	\$0.10	0.54	March 15, 2015
6,760,000	\$0.10	0.78	June 13, 2015
10,000,000	\$0.05	1.48	February 24, 2016
19,910,000	\$0.10	1.08	

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
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
Expired	(818,750)	\$ 0.80
Balance, August 31, 2014	19,910,000	\$ 0.07

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the period ended August 31, 2014 included:

- The reallocation of \$181,110 for expired options from share-based payments reserve to deficit.
- The reallocation of \$458,500 for expired warrants from share-based payments reserve to share capital.

Significant non-cash transactions during the year ended August 31, 2013 included:

- The reallocation of \$2,400 for expired options from share-based payments reserve to deficit.
- The reallocation of \$224,440 for expired warrants from share-based payments reserve to share capital.

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

(Unaudited - Expressed in Canadian dollars)

15. 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.

	August 31, 2014	August 31, 2013
Interest on loans	\$ 20,052	\$ 17,767
Professional fees	29,000	50,575
Salaries and benefits	36,000	64,000
	\$ 85,052	\$ 132,342

Trade and other payables includes \$237,573 (February 28, 2014 - \$205,673) owed to related parties.

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

	Advances
Balance, February 28, 2013	227,165
Advances	81,308
Repayments	(115,973)
Balance, February 28, 2014	\$ 192,500
Advances	25,000
Balance, August 31, 2014	\$ 217,500

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.)

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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16. 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:

	August 31, 2014	February 28, 2014
Capital assets are located in:		
Mexico	\$ 602,768	\$ 606,878
Canada	8,717	9,783
	\$ 611,485	\$ 616,661

17. 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.

TELSON RESOURCES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Period ended August 31, 2014

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17. 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 \$9,000.

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.

TELSON RESOURCES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Period ended August 31, 2014

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18. 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 period ended August 31, 2014. The Company is not subject to externally imposed capital requirements.