



TELSON RESOURCES INC.

FINANCIAL REPORTS:

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

Three months ended

May 31, 2015

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)

	As at	
	May 31, 2015	February 28, 2015
ASSETS		
Current assets		
Cash (Note 4)	\$ 6,576	\$ 446
Receivables (Note 5)	45,791	44,984
Prepaid expenses and advances (Note 6)	1,234	1,773
	53,601	47,203
Exploration and evaluation assets (Note 7)	576,525	576,525
Equipment (Note 8)	24,122	30,286
	\$ 654,248	\$ 654,014
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Trade and other payables (Note 9)	\$ 1,184,104	\$ 1,159,412
Advances (Note 15)	527,500	527,500
Loans (Note 10)	324,000	325,000
Obligation under share purchase agreement (Note 7)	248,000	250,000
Reclamation and remediation provision (Note 11)	177,609	183,303
	2,461,213	2,445,215
Shareholders' deficiency		
Share capital (Note 12)	44,321,949	44,249,949
Share subscriptions received	61,540	-
Share-based payments reserve (Note 13)	501,400	1,161,752
Deficit	(46,691,854)	(47,202,902)
	(1,806,965)	(1,791,201)
	\$ 654,248	\$ 654,014

Nature of operations and going concern (Note 1)**Subsequent event** (Note 19)**On behalf of the Board:**"Ralph Shearing"

Ralph Shearing

Director

"Yao Sun"

Yao Sun

Director

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	
	May 31,	
	2015	2014
EXPENSES		
Amortization (Note 8)	\$ 2,099	\$ 2,588
Communications	901	1,829
Consulting and financial services	5,250	5,250
Exploration and evaluation expenditures (Note 7)	16,629	49,232
Foreign exchange gain	(20,972)	(9,656)
Insurance	1,000	4,144
Interest and finance charges	-	23
Interest on loans	11,455	9,917
Office and miscellaneous	1,108	6,339
Professional fees	19,060	41,342
Regulatory fees	525	1,025
Rent	10,790	11,200
Salaries and benefits	28,432	36,022
Transfer agent	1,105	1,205
	(77,382)	(160,460)
Gain on disposal of equipment	37	-
Interest income	41	45
Loss and comprehensive loss for the year	\$ (77,304)	\$ (160,415)
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding	49,696,616	49,696,616

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 May 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (77,304)	\$ (160,415)
Items not affecting cash:		
Amortization	2,099	2,588
Unrealized foreign exchange gain	(8,694)	(7,248)
Gain on disposal of equipment	(37)	-
Changes in non-cash working capital items:		
Receivables	(807)	(1,402)
Prepaid expenses and advances	539	228
Trade and other payables	24,692	(50,723)
Net cash used in operating activities	(59,512)	(216,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share subscriptions received	61,540	-
Advances received	-	230,000
Net cash provided by financing activities	61,540	230,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of equipment	4,102	-
	4,102	-
Change in cash during the period	6,130	13,028
Cash, beginning of period	446	22,380
Cash, end of period	\$ 6,576	\$ 35,408

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 DEFICIENCY**

(Unaudited - Expressed in Canadian dollars)

For the three months ended May 31, 2015 and 2014

	Issued Number of Shares	Share Amount	Share Sub- scriptions Received	Share- based payments reserve	Deficit	Total
Balance, February 28, 2015	49,696,616	\$ 44,249,949	\$ -	\$ 1,161,752	\$ (47,202,902)	\$ (1,791,201)
Share subscriptions received	-	-	61,540	-	-	61,540
Share-based payments - option expiry (Note 13)	-	-	-	(588,352)	588,352	-
Share-based payments - warrants expiry (Note 13)	-	72,000	-	(72,000)	-	-
Loss and comprehensive loss for the period	-	-	-	-	(77,304)	(77,304)
Balance, May 31, 2015	49,696,616	\$ 44,321,949	\$ 61,540	\$ 501,400	\$ (46,691,854)	\$ (1,806,965)
Balance, February 28, 2014	49,696,616	\$ 43,694,449	\$ 20,000	\$ 1,895,962	\$ (46,684,573)	\$ (1,074,162)
Share subscriptions reclassified to advances	-	-	(20,000)	-	-	(20,000)
Share-based payments - option expiry (Note 13)	-	-	-	(181,110)	181,110	-
Loss and comprehensive loss for the period	-	-	-	-	(160,415)	(160,415)
Balance, May 31, 2014	49,696,616	\$ 43,694,449	\$ -	\$ 1,714,852	\$ (46,663,878)	\$ (1,254,577)

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 May 31, 2015

(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 450, 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 May 31, 2015 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 May 31, 2015

(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, 2015. 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, 2015 annual consolidated financial statements.

These condensed interim consolidated financial statements were approved by the Board of Directors on July 29, 2015.

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%

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, 2015:

- IFRS 7 – *Financial Instruments – Disclosure*

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

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 May 31, 2015

(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 (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 expressed in Canadian dollars and held in deposits at both Canadian and Mexican banks.

5. RECEIVABLES

The Receivable amounts are expressed 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 expressed in Canadian dollars and relate to both Canadian and Mexican vendor deposits, tax installments, and employee advances.

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

Period ended May 31, 2015

(Unaudited - 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 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
Acquisition costs; May 31, 2015 and February 28, 2015	\$576,525

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

Period ended May 31, 2015

(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:

	May 31, 2015		
	Tahuehueto	Jocuixtita	Total
Project office	\$ 8,957	\$ -	\$ 8,957
Wages and benefits	7,672	-	7,672
	\$ 16,629	\$ -	\$ 16,629

	May 31, 2014		
	Tahuehueto	Jocuixtita	Total
Mineral concession taxes, licences, and fees	\$ 24,058	-	\$ 24,058
Project office	12,120	-	12,120
Wages and benefits	13,054	-	13,054
	\$ 49,232	\$ -	\$ 49,232

8. EQUIPMENT

	Vehicles	Camp equipment	Exploration equipment	Computer equipment	Office equipment	Leasehold improvements	Total
Cost							
February 28, 2014	\$32,825	\$8,696	\$141,404	\$38,286	\$96,521	\$48,978	\$366,710
Disposal	-	-	-	-	-	(48,978)	(48,978)
February 28, 2015	\$32,825	\$8,696	\$141,404	\$38,286	\$96,521	\$ -	\$317,732
Disposal	(16,386)	-	-	-	-	-	(16,386)
May 31, 2015	\$16,439	\$8,696	\$141,404	\$38,286	\$96,521	\$ -	\$301,346
Accumulated amortization							
February 28, 2014	\$24,663	\$7,586	\$131,763	\$33,490	\$80,095	\$48,978	\$326,574
Disposal	-	-	-	-	-	(48,978)	(48,978)
Amortization for the year	2,055	336	2,717	1,449	3,293	-	9,850
February 28, 2015	\$26,718	\$7,922	\$134,479	\$34,939	\$83,388	\$ -	\$287,446
Disposal	(12,321)	-	-	-	-	-	(12,321)
Amortization for the period	308	66	767	275	683	-	2,099
May 31, 2015	\$14,705	\$7,988	\$135,246	\$35,214	\$84,071	\$ -	\$277,224
Net book value							
February 28, 2015	\$6,107	\$774	\$6,924	\$3,347	\$13,133	\$ -	\$30,286
May 31, 2015	\$1,734	\$708	\$6,158	\$3,072	\$12,450	\$ -	\$24,122

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

Period ended May 31, 2015

(Unaudited - Expressed in Canadian dollars)

9. TRADE AND OTHER PAYABLES

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

10. LOANS

In Canadian dollars	May 31, 2015	February 28, 2015
Loan #1 - A loan from a director of the Company in the amount of US\$100,000 (Cdn\$124,000) is unsecured, due on demand, 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⁾	\$ 124,000	\$ 125,000
Loan #2 - A loan from a director of the Company in the amount of \$100,000 is unsecured, due on demand, 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 demand, 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
	\$ 324,000	\$ 325,000

(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.

11. RECLAMATION AND REMEDIATION PROVISION

	Reclamation and Remediation Provision
Balance, February 28, 2015	\$ 183,303
Change in liability estimate	(5,694)
Balance, May 31, 2015	\$ 177,609

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.

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

Period ended May 31, 2015

(Unaudited - Expressed in Canadian dollars)

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 2016 Transactions

No shares were issued during the period ended May 31, 2015.

The Company entered into an agreement with a private Mexican mining company (the "Agreement"), which proposes certain transactions, including a non-brokered private placement of 80,000,000 units of the Company. Each unit is priced at \$0.025 per unit for total gross proceeds of \$2,000,000. Each unit is comprised of one common share of the Company and one half of a transferable share purchase warrant. Each Whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.025 within two years of its date of issuance. As of May 31, 2015, the Company had received subscription payments in the amount of \$61,540 pursuant to this Agreement, and an additional \$132,927 subsequent to May 31, 2015.

Fiscal 2015 Transactions

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

During the period ended May 31, 2014, the Company received \$230,000 that was initially classified as subscription proceeds as the funds were intended for a private placement, along with \$20,000 received in the previous fiscal year. However, the investor subsequently requested that these funds be treated as cash advances, accordingly the Company reallocated these amounts to Advances.

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 May 31, 2015 and 2014 no stock options were granted.

During the period ended May 31, 2015, 996,875 options (2014 – 450,000 options) previously issued as share-based payments with a fair value of \$588,352 (2014 - \$181,110) were cancelled or expired without being exercised. The previously recorded historical fair value of these options was transferred from reserve to deficit.

As at May 31, 2015 the Company had no outstanding stock options.

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

Period ended May 31, 2015

(Unaudited - 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 28, 2014	1,446,875	\$ 0.85
Expired/cancelled	(450,000)	\$ 0.80
Balance, February 28, 2015	996,875	\$ 0.87
Expired/cancelled	(996,875)	\$ 0.87
Balance, May 31, 2015	-	\$ 0.00
Exercisable, May 31, 2015	-	\$ 0.00

Warrants

As at May 31, 2015 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Weighted average remaining life (years)	Expiry Date
6,760,000	\$0.10	0.04	June 13, 2015 ⁽¹⁾
10,000,000	\$0.05	0.74	February 24, 2016
16,760,000	\$0.07	0.45	

(1) Subsequent to the period ended May 31, 2015, these warrants expired without being exercised.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2014	20,728,750	\$ 0.10
Expired	(3,068,750)	\$ 0.29
Balance, February 28, 2015	17,660,000	\$ 0.07
Expired	(900,000)	\$ 0.10
Balance, May 31, 2015	16,760,000	\$ 0.07

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

Period ended May 31, 2015

(Unaudited - Expressed in Canadian dollars)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended May 31, 2015 included:

- a) The reallocation of \$588,352 for expired options from share-based payments reserve to deficit.
- b) The reallocation of \$72,000 for expired warrants from share-based payments reserve to share capital.

Significant non-cash transactions during the year ended May 31, 2014 included:

- a) The reallocation of \$181,110 for expired options from share-based payments reserve to deficit.
- b) The reclassification of \$20,000 of share subscriptions received to advances.
- c) The reclassification of the reclamation and remediation provision from long-term to current liabilities.

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.

	May 31, 2015	May 31, 2014
Interest on loans	\$ 11,455	\$ 9,917
Professional fees	10,500	16,000
Salaries and benefits	18,000	18,000
	<u>\$ 39,955</u>	<u>\$ 43,917</u>

Trade and other payables includes \$339,564 (February 28, 2014 - \$307,739) owed to related parties.

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

	Advances
Balance, February 28, 2014	\$ 192,500
Advances	317,500
Share subscriptions reclassified to advances	20,000
Repayments	<u>(2,500)</u>
<u>Balance, February 28, 2015 and May 31, 2015</u>	<u>\$ 527,500</u>

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**

Period ended May 31, 2015

(Unaudited - Expressed in Canadian dollars)

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:

	May 31, 2015	February 28, 2015
Capital assets are located in:		
Mexico	\$ 593,409	\$ 599,160
Canada	7,238	7,651
	\$ 600,647	\$ 606,811

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, loans, and obligation under share purchase agreement 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 May 31, 2015

(Unaudited - Expressed in Canadian dollars)

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 and interest bearing loans. 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. The Company's loans bear interest at fixed 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 affect net loss by approximately \$11,000.

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 May 31, 2015

(Unaudited - Expressed in Canadian dollars)

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 May 31, 2015. The Company is not subject to externally imposed capital requirements.

19. SUBSEQUENT EVENT

The Company entered into an agreement with a private Mexican mining company (the "Agreement"), which proposes certain transactions, the most significant of which are:

- a) A non-brokered private placement of 80,000,000 units of the Company. Each unit is priced at \$0.025 per unit for total gross proceeds of \$2,000,000. Each unit is comprised of one common share of the Company and one half of a transferable share purchase warrant. Each Whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.025 within two years of its date of issuance. As of May 31, 2015, the Company had received subscription payments in the amount of \$61,540 pursuant to this Agreement, and an additional \$132,927 subsequent to May 31, 2015.
- b) Settlement of \$693,500 of debts, including certain loans and advances, by the issuance of 27,740,000 common shares at a price of \$0.025 per share.
- c) The Company will seek shareholder and regulatory approval to consolidate its common shares on a 2 old for 1 new basis. The above mentioned issuances of shares and warrants are on a pre-consolidation basis.