



TELSON RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended

February 29, 2016

and

February 28, 2015

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 29, 2016 and February 28, 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' 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.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Telson Resources Inc. as at February 29, 2016 and February 28, 2015 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 Professional Accountants

June 28, 2016

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

	As at:	
	February 29, 2016	February 28, 2015
ASSETS		
Current assets		
Cash	\$ 255,034	\$ 446
Receivables (Note 4)	100,005	44,984
Prepaid expenses and advances (Note 5)	12,897	1,773
	367,936	47,203
Exploration and evaluation assets (Note 6)	576,525	576,525
Equipment (Note 7)	47,663	30,286
	\$ 992,124	\$ 654,014
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Trade and other payables	\$ 719,316	\$ 1,159,412
Advances (Note 14)	34,000	527,500
Loans (Note 8)	-	325,000
Obligation under share purchase agreement (Note 6)	270,000	250,000
Reclamation and remediation provision (Note 9)	-	183,303
	1,023,316	2,445,215
Non-current liabilities		
Reclamation and remediation provision (Note 9)	100,319	-
	\$ 1,123,635	\$ 2,445,215
Shareholders' deficiency		
Share capital (Note 10)	\$ 47,383,301	\$ 44,249,949
Share subscriptions received	50,742	-
Share-based payments reserve (Note 11)	-	1,161,752
Deficit	(47,565,554)	(47,202,902)
	(131,511)	(1,791,201)
	\$ 992,124	\$ 654,014

Nature of operations and going concern (Note 1)

Subsequent events (Note 18)

On behalf of the Board:

<u>"José Antonio Berlanga Balderas"</u>	Director	<u>"Ralph Shearing"</u>	Director
José Antonio Berlanga Balderas		Ralph Shearing	

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, except share amounts)

	Years ended	
	February 29, 2016	February 28, 2015
EXPENSES		
Amortization (Note 7)	\$ 7,587	\$ 9,850
Business promotion (recovery)	(2,415)	-
Communications	8,581	6,179
Consulting and financial services	29,970	21,000
Exploration and evaluation expenditures (Note 6)	457,601	268,586
Foreign exchange loss	6,311	67,288
Insurance	1,000	4,144
Interest and finance charges	-	116
Interest on loans	32,389	41,247
Office and miscellaneous	50,282	38,172
Personnel	152,222	119,918
Professional fees	140,650	150,031
Regulatory fees	25,153	9,479
Rent	37,273	42,233
Transfer agent	13,829	4,815
Travel	16,960	-
	(977,393)	(783,058)
Bad debt recovery (Note 4)	26,352	85,934
Interest income	-	85
Gain on disposal of equipment	37	-
Loss and comprehensive loss for the year	\$ (951,004)	\$ (697,039)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	40,400,786	24,848,245

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 29, 2016	February 28, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (951,004)	\$ (697,039)
Items not affecting cash:		
Amortization	7,587	9,850
Change in reclamation and remediation provision estimate	(67,907)	-
Unrealized foreign exchange loss	4,923	42,000
Gain on disposal of equipment	(37)	-
Changes in non-cash working capital items:		
Receivables	(55,021)	5,937
Prepaid expenses and advances	(11,124)	10,085
Trade and other payables	(426,986)	292,233
Net cash used in operating activities	(1,499,569)	(336,934)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares and warrants	2,000,000	-
Share issue costs	(133,548)	-
Share subscriptions received	50,742	-
Advances received	-	317,500
Advance repayments	-	(2,500)
Loan repayments	(134,008)	-
Net cash provided by financing activities	1,783,186	315,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment purchases	(29,029)	-
Net cash used by investing activities	(29,029)	-
Change in cash during the year	254,588	(21,934)
Cash, beginning of year	446	22,380
Cash, end of year	\$ 255,034	\$ 446

Supplemental disclosure with respect to cash flows (Note 12)

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

TELSON RESOURCES INC.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**

(Expressed in Canadian dollars, except share amounts)

	Number of Shares Issued ⁽¹⁾	Share Capital	Share Sub- scriptions Received	Share- based Payments Reserve	Deficit	Total
Balance, February 28, 2014	24,848,245	\$ 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 11)	-	-	-	(178,710)	178,710	-
Share-based payments - warrants expiry (Note 11)	-	555,500	-	(555,500)	-	-
Loss and comprehensive loss for the year	-	-	-	-	(697,039)	(697,039)
Balance, February 28, 2015	24,848,245	\$ 44,249,949	\$ -	\$ 1,161,752	\$ (47,202,902)	\$ (1,791,201)
Share units issued (Note 10)	40,000,000	2,000,000	-	-	-	2,000,000
Share units issued - finder's fee (Note 10)	1,800,000	90,000	-	-	-	90,000
Share units issue costs (Note 10)	-	(223,548)	-	-	-	(223,548)
Shares issued - debt settlement (Note 10)	13,870,000	693,500	-	-	-	693,500
Share subscriptions received	-	-	50,742	-	-	50,742
Share-based payments - option expiry (Note 11)	-	-	-	(588,352)	588,352	-
Share-based payments - warrants expiry (Note 11)	-	573,400	-	(573,400)	-	-
Loss and comprehensive loss for the year	-	-	-	-	(951,004)	(951,004)
Balance, February 29, 2016	80,518,245	\$ 47,383,301	\$ 50,742	\$ -	\$ (47,565,554)	\$ (131,511)

(1) After retrospective effect of 2:1 share consolidation on October 20, 2015; including adjustments for fractional shares.

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

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

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".

Effective October 20, 2015, the Company consolidated its common share capital on a two to one basis. All share and per share amounts have been restated to reflect the 2:1 share consolidation, where applicable.

The consolidated financial statements of the Company as at and for the year ended February 29, 2016 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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

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 28, 2016.

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%
Real de la Bufa S.A. de C.V. (formerly Sacramento de la Plata S.A. de C.V.) ("Real de la Bufa")	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.

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.

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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

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:

Provisions

Provisions recognized in the financial statements involve estimates on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

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

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.

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 effective 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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

2. BASIS OF PRESENTATION (continued)

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.

Valuation of financial instruments

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 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.

Critical accounting judgments:

The preparation of the consolidated financial statements requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. Estimates are continuously evaluated and are based on management’s experience and expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Functional 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*.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

2. BASIS OF PRESENTATION (continued)

Financial instruments

Financial assets and liabilities are classified upon initial recognition to various categories. The classification determines the method by which the financial instruments are measured on the statement of financial position subsequent to initial recognition and how changes in value are recorded. The classification may require the Company to make certain judgments, taking into account management's intention of the use of the financial instruments

Economic recoverability and probability of future economic benefits of mineral property interests

Economic recoverability and probability of future economic benefits of mineral property interests
Management has determined that exploration and evaluation of mineral properties and related costs incurred, which have been recognized on the consolidated statements of financial position, are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geological data, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

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.

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.

Cash

Cash consist of highly liquid short-term investments that are readily convertible to cash and have maturities with terms of less than ninety days and/or with original maturity over ninety days but redeemable on demand without penalty.

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.

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

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Equipment (continued)**

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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

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 of assets

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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

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.

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.

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

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)**

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.

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.

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

Year ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars, unless otherwise stated, except share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of equity units issued in private placements

The Company uses the 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.

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.

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, 2017:

IAS 12, *Income Taxes*

Amendments to IAS 12 to clarify the recognition of a deferred tax asset for unrealized losses.

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.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. RECEIVABLES

The Receivable amounts are presented in Canadian dollars and relate to both Canadian and Mexican refundable value added taxes. During the year ended February 29, 2016 the Company recovered \$26,352 (2015 – \$85,934) of a receivable written-off in prior years.

5. PREPAID EXPENSES AND ADVANCES

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

6. 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 Real de la Bufa. In March 2007 the Company converted a portion of inter-company debt between Samarkand and Real de la Bufa into equity, thereby increasing its ownership in Real de la Bufa from 90% to 99%. Real de la Bufa 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 Real de la Bufa shares.

In 2006, the Company entered into an agreement for surface access rights to certain areas of the Tahuehueto project. Under the terms of this agreement the Company must pay an annual fee escalating at 5% per annum. The fees due for the fiscal years 2014 of US\$28,141; 2015 of US\$29,548; and 2016 of US\$31,025 were paid during the year ended February 29, 2016.

On April 26, 2016, the Company extended the surface access rights agreement for an additional 30 years. Under the terms of the new agreement, the Company will make an initial payment of US\$46,540 and recurring yearly payments that will increase by a rate of 5% compounded annually.

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. In July 2013 the Company decided to terminate the Jocuixtita option agreements. During the 2016 fiscal year, the Company transferred title of the remaining mineral properties staked by its subsidiary Samarkand to one of the optionors.

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. EXPLORATION AND EVALUATION ASSETS (continued)**Exploration and evaluation assets**

	Tahuehueto
Acquisition costs; February 29, 2016 and February 28, 2015	\$576,525

Exploration and evaluation expenditures

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

	February 29, 2016		
	Tahuehueto	Jocuixtita	Total
Assays, data, and maps	\$ 96,729	\$ -	\$ 96,729
Equipment and supplies	8,023	-	8,023
Geological consulting	5,789	-	5,789
Subcontractors and equipment rentals	39,640	-	39,640
Drilling	800	-	800
Mineral concession taxes, licences, and fees	267,951	-	267,951
Personnel	79,022	-	79,022
Project office	46,145	-	46,145
Travel and transportation	16,350	-	16,350
Change in reclamation and remediation provision	(67,907)	-	(67,907)
Recovery of expenditures	(7,310)	(27,631)	(34,941)
	\$ 485,232	\$ (27,631)	\$ 457,601

	February 28, 2015		
	Tahuehueto	Jocuixtita	Total
Equipment and supplies	\$ 1,032	\$ -	\$ 1,032
Mineral concession taxes, licences, and fees	181,323	15,084	196,407
Personnel	38,208	-	38,208
Project office	51,073	-	51,073
Recovery of expenditures	(18,134)	-	(18,134)
	\$ 253,502	\$ 15,084	\$ 268,586

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

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7. 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
Additions	26,608	-	-	2,421	-	-	29,029
Disposal	(16,386)	-	-	-	-	-	(16,386)
February 29, 2016	\$43,047	\$8,696	\$141,404	\$40,707	\$96,521	\$ -	\$330,375
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 year	1,280	247	2,338	1,049	2,673	-	7,587
February 29, 2016	\$15,677	\$8,169	\$136,817	\$35,988	\$86,061	\$ -	\$282,712
Net book value							
February 28, 2015	\$6,107	\$774	\$6,924	\$3,347	\$13,133	\$ -	\$30,286
February 29, 2016	\$27,370	\$527	\$4,587	\$4,719	\$10,460	\$ -	\$47,663

During the year ended February 29, 2016, the Company settled accounts payable of \$4,102 (February 28, 2015 \$nil) in exchange for equipment with net book value of \$4,065.

8. LOANS

In Canadian dollars	February 29, 2016	February 28, 2015
Loan #1 - A loan from a director of the Company in the amount of US\$100,000 is unsecured, due on demand, and bears interest at a rate of 10% per annum, compounded monthly.	\$ -	\$ 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.	-	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.	-	100,000
	\$ -	\$ 325,000

TELSON RESOURCES INC.

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8. LOANS (continued)

During the year ended February 29, 2016, the Company made a US\$100,000 (Cdn\$134,008) cash principal re-payment to the director of loan #1.

During the year ended February 29, 2016, the Company settled the principal amounts owing to the director of loans #2 and #3 by the issuance of 4,000,000 common shares with a fair market value of \$0.05 per share.

Effective November 20, 2015, these individuals ceased to be directors of the Company.

9. RECLAMATION AND REMEDIATION PROVISION

The Company recognizes a provision for site reclamation and closure, which reflects the present value of the estimated amount of cash flows required to satisfy the asset retirement obligation in respect of the Tahuehueto project. The components of this obligation are mainly the costs associated with the reclamation of the camp, roads and work sites on the property. The estimate of future asset retirement obligations is subject to change based on amendments to applicable laws, management's intentions, mine life and mining concessions renewals.

The present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at \$100,319. The key assumptions on which this estimate was based on are:

- Undiscounted cash flow for site reclamation of \$163,878;
- Expected timing of future cash flows is based on estimated mine life of 11 years with reclamation occurring equally in years 12 and 13;
- Annual inflation rate 3.60%; and
- Risk free interest rate 7.75%.

The discounted liability for the decommissioning and restoration provision is as follows:

	February 29, 2016	February 28, 2015
Balance, beginning of period	\$ 183,303	\$ 183,303
Foreign exchange adjustment	(19,425)	-
Change in estimate	(63,559)	-
Balance, end of period	100,319	183,303
Less current portion of the obligation	-	(183,303)
Non-current obligation	\$ 100,319	\$ -

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10. 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

The Company's common shares were consolidated on a one new for two old share basis effective October 20, 2015. As a result, on that date, after adjustments for fractional shares, there were 24,848,245 common shares issued and outstanding.

- a. The Company completed a non-brokered private placement of 40,000,000 post-consolidation units of the Company. Each unit was priced at \$0.05 per unit for total gross proceeds of \$2,000,000. Each unit was 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 \$0.05 within two years of its date of issuance.

In connection with this private placement, the Company paid a finder's fee of \$60,000 and issued 1,800,000 post-consolidation common shares valued at \$90,000.

- b. The Company agreed to settle debts in the amount of \$693,500, including a director's loans and advances, by the issuance of 13,870,000 post-consolidation common shares at a price of \$0.05 per share.
- c. The Company received cash of \$50,742 for share subscriptions in connection with a non-brokered private placement completed subsequent to February 29, 2016. (Note 18)

Fiscal 2015 Transactions

None

11. SHARE-BASED PAYMENTS RESERVE

A 2015 Stock Option Plan (the "Plan") was approved by the shareholders on November 20, 2015, 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 years ended February 29, 2016 and February 28, 2015, no stock options were granted.

During the year ended February 29, 2016, 498,438 options (February 28, 2015 – 225,000 options) previously issued as share-based payments with a fair value of \$588,352 (February 28, 2015 - \$178,710) were cancelled or expired without being exercised. The previously recorded historical fair value of these options was transferred from share-based payments reserve to deficit.

As at February 29, 2016 the Company had no outstanding stock options.

TELSON RESOURCES INC.

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11. 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	723,438	\$ 1.70
Expired/cancelled	(225,000)	\$ 1.60
Balance, February 28, 2015	498,438	\$ 1.74
Expired/cancelled	(498,438)	\$ 1.74
Balance, February 29, 2016	-	\$ 0.00
Exercisable, February 28, 2015	498,438	\$ 1.74
Exercisable, February 29, 2016	-	\$ 0.00

Warrants

As at February 29, 2016 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Weighted average remaining life (years)	Expiry Date
16,520,000	\$0.05	1.72	November 17, 2017
3,480,000	\$0.05	1.78	December 9, 2017
20,000,000	\$0.05	1.73	

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2014	10,364,375	\$ 0.20
Expired	(1,534,375)	\$ 0.58
Balance, February 28, 2015	8,830,000	\$ 0.14
Issued	20,000,000	\$ 0.05
Expired	(8,830,000)	\$ 0.14
Balance, February 29, 2016	20,000,000	\$ 0.05

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

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12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the period ended February 29, 2016 included:

- a) The reallocation of \$588,352 for expired options from share-based payments reserve to deficit.
- b) The reallocation of \$573,400 for expired warrants from share-based payments reserve to share capital.
- c) In connection with a private placement, the Company agreed to pay a finder's fee by the issuance of 1,800,000 post-consolidation common shares valued at \$90,000.
- d) The Company agreed to settle debts in the amount of \$693,500 – including director's loans in the amount of \$200,000 and director's advances in the amount of \$188,500 – by the issuance of 13,870,000 post-consolidation common shares at a price of \$0.05 per share.
- e) The Company agreed to settle accounts payable in the amount of \$4,102 by the transferring title of a vehicle with a net book value of \$4,065 to the creditor.
- f) The Company transferred its reclamation and remediation provision from a current to non-current liability valued at \$163,878.

Significant non-cash transactions during the year ended February 28, 2015 included:

- a) The reallocation of \$178,710 for expired options from share-based payments reserve to deficit.
- b) The reallocation of \$555,500 for expired warrants from share-based payments reserve to share capital.
- c) The reclassification of \$20,000 of share subscriptions received to advances.
- d) The reclassification of the reclamation and remediation provision from long-term to current liabilities.

13. INCOME TAXES

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

	February 29, 2016	February 28, 2015
Loss for the year before incomes taxes	\$ (951,004)	\$ (697,039)
Expected income tax (recovery)	\$ (247,000)	\$ (181,000)
Change in statutory, foreign tax, foreign exchange rates, and other	(224,000)	85,000
Permanent difference	810,000	(47,000)
Share issue costs	(58,000)	-
Adjustment to prior years provision versus statutory tax returns and inflationary adjustments	1,776,000	(618,000)
Change in unrecognized deductible temporary differences	(2,057,000)	761,000
Total income tax (recovery)	\$ -	\$ -

TELSON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. INCOME TAXES (continued)

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

	February 29, 2016	February 28, 2015
Deferred tax assets		
Exploration and evaluation assets	\$ 1,228,000	\$ 1,115,000
Equipment	33,000	56,000
Share issue costs	50,000	-
Allowable capital losses	277,000	277,000
Non-capital losses available for future period	5,654,000	7,872,000
	7,242,000	9,320,000
Unrecognized deferred tax assets	(7,242,000)	(9,320,000)
Net deferred tax assets	\$ -	\$ -

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

	February 29, 2016	Expiry date range
Temporary differences		
Exploration and evaluation assets	\$ 4,725,000	No expiry date
Equipment	\$ 126,000	No expiry date
Share issue costs	\$ 194,000	2017 to 2020
Allowable capital losses	\$ 1,065,000	No expiry date
Non-capital losses available for future period	\$ 20,372,000	2017 to 2036
Canada	\$ 11,460,000	2017 to 2036
Mexico	\$ 8,912,000	2016 to 2025

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

14. RELATED PARTY TRANSACTIONS

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

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14. RELATED PARTY TRANSACTIONS (continued)

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

	February 29, 2016	February 28, 2015
Exploration and evaluation expenditures	\$ 70,061	\$ -
Interest on loans	32,389	41,247
Personnel	106,000	72,000
Professional fees	57,875	54,000
	\$ 266,325	\$ 167,247

Trade and other payables include \$265,317 (February 28, 2015 - \$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	(2,500)
Balance, February 28, 2015	527,500
Repayments	(493,500)
Balance, February 29, 2016	\$ 34,000

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

The Company had three loans from two directors of the Company (Note 8).

15. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of mineral property interests. 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 29, 2016	February 28, 2015
Exploration and evaluation assets, and equipment are located in:		
Mexico	\$ 615,768	\$ 599,160
Canada	8,420	7,651
	\$ 624,188	\$ 606,811

TELSON RESOURCES INC.

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16. 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 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 (Note 1).

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 \$7,100.

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.

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17. 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 29, 2016. The Company is not subject to externally imposed capital requirements.

18. SUBSEQUENT EVENTS

Subsequent to February 29, 2016, the Company:

- a) Completed a non-brokered private placement of 12,367,333 units of the Company. Each unit is priced at \$0.12 per unit for total gross proceeds of \$1,484,080. 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 \$0.12 within two years of its date of issuance.
- b) Granted 6,950,000 stock options at an exercise price of \$0.13 per share, expiring on March 21, 2021 to directors, officers, employees, and consultants of the Company.
- c) Repaid a \$34,000 advance from a director of the Company.
- d) Settled accrued loan interest payable in the amount of \$67,380 owed to a former director of the Company by a cash payment of \$25,000. The remaining interest payable in the amount \$42,380 was forgiven by the former director.