TELSON RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended August 31, 2016 and 2015

Unaudited

(Expressed in Canadian dollars)

TELSON RESOURCES INC.

(the "Company")

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended August 31, 2016 and 2015

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of 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 Chartered Accountants for a review of interim financial statements by the entity's auditor.

October 31, 2016

Telson Resources Inc.
Consolidated Statements of Financial Position

Unaudited - (Expressed in Canadian dollars)

		August 31, 2016		February 29, 2016
Assets				
Current assets:				
Cash	$	1,905,008	$	255,034
Amounts receivable		198,022		100,005
Prepaid expenses and deposits		40,110		12,897
		2,143,140		367,936
Non-current assets:				
Exploration and evaluation assets (note 3)		576,525		576,525
Equipment (note 4)		166,634		47,663
Total assets	**$**	**2,886,299**	**$**	**992,124**
Liabilities and Equity				
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	738,007	$	719,316
Advances		–		34,000
Obligation under share purchase agreement (note 3)		262,340		270,000
		1,000,347		1,023,316
Non-current liabilities:				
Long-term debt (note 5)		1,740,499		–
Provision for site reclamation and closure (note 6)		96,951		100,319
Total liabilities	$	2,837,797	$	1,123,635
Equity				
Share capital (note 7)	$	48,851,672	$	47,383,301
Equity reserves (note 8)		631,594		–
Share subscriptions received		–		50,742
Deficit		(49,434,764)		(47,565,554)
Total equity		48,502		(131,511)
Total liabilities and equity	**$**	**2,886,299**	**$**	**992,124**

Basis of presentation and going concern (note 2)
Subsequent events (note 13)

Approved on behalf of the Board of Directors:

"José Antonio Berlanga Balderas"
Director

"Ralph Shearing"
Director

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

Telson Resources Inc.

Consolidated Statements of Loss and Comprehensive Loss

Unaudited - (Expressed in Canadian dollars, except share amounts)

	Three months ended Aug 31, 2016	Three months ended Aug 31, 2015	Six months ended Aug 31, 2016	Six months ended Aug 31, 2015
Exploration and Evaluation Expenditures:				
Assaying, data and maps	$ (197)	$ 31,954	$ 12,518	$ 31,954
Camp cost, equipment and field supplies	17,263	1,001	79,859	1,001
Development costs	35,076	–	35,076	–
Fuel and consumables	19,352	–	19,352	–
Project general and office expenses	22,018	4,484	38,109	13,441
Geological consulting services	187,119	–	190,713	–
Permitting, environmental and community costs	142,800	3,546	143,859	3,546
Salaries and wages	43,419	9,216	90,564	16,888
Travel and accommodation	7,063	–	12,334	–
Accretion of provision for site reclamation and closure (note 6)	1,812	–	3,714	–
	475,725	50,201	626,098	66,830
General Expenses:				
Consulting fees, wages and benefits	$ 239,799	$ 33,691	$ 359,459	$ 67,373
Legal and professional fees	5,661	27,362	125,984	46,422
Office, rent and administration	73,138	10,467	99,624	25,464
Regulatory, transfer agent and shareholder information	6,149	7,665	10,016	10,196
Share-based compensation (note 8(a))	202,074	–	631,594	–
Travel, promotion and investor relations	18,597	1,064	40,917	1,064
	545,418	80,249	1,267,594	150,519
Other (income) expenses:				
Interest and other income (note 9)	(3,287)	(26,352)	(45,670)	(26,430)
Interest on loans (note 5 and 9)	23,831	10,626	23,831	22,081
Foreign exchange (income) loss	(3,332)	27,052	(2,643)	6,080
	17,212	11,326	(24,482)	1,731
Total Loss and Comprehensive loss for the period	**$ (1,038,355)**	**$ (141,776)**	**$ (1,869,210)**	**$ (219,080)**
Basic and diluted loss per share	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.00)
Weighted average number of shares outstanding (basic and diluted)	92,885,578	49,696,616	89,054,393	49,696,616

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

Telson Resources Inc.
Consolidated Statements of Changes in Equity

Unaudited - (Expressed in Canadian dollars, except share amounts)

	Number of common shares	Share capital	Equity reserves	Share subscriptions received	Deficit	Total
Balance at February 28, 2015	**49,696,616**	**$ 44,249,949**	**$ 1,161,752**	**$ –**	**$ (47,202,902)**	**$ (1,791,201)**
Share subscriptions received	–	–	–	983,598	–	983,598
Stock options expired	–	–	(588,352)	–	588,352	–
Share purchase warrants expired	–	173,400	(173,400)	–	–	–
Loss and comprehensive loss for the period	–	–	–	–	(219,080)	(219,080)
Balance at August 31, 2015	**49,696,616**	**$ 44,423,349**	**$ 400,000**	**$ 983,598**	**$ (46,833,630)**	**$ (1,026,683)**
Balance at February 29, 2016	**80,518,245**	**$ 47,383,301**	**$ –**	**$ 50,742**	**$ (47,565,554)**	**$ (131,511)**
Shares issued pursuant to private placement at $0.12 per share (note 7)	12,367,333	1,484,080	–	(50,742)	–	1,433,338
Share issue costs	–	(15,709)	–	–	–	(15,709)
Share-based compensation (note 8(a))	–	–	631,594	–	–	631,594
Loss and comprehensive loss for the period	–	–	–	–	(1,869,210)	(1,869,210)
Balance at August 31, 2016	**92,885,578**	**$ 48,851,672**	**$ 631,594**	**$ –**	**$ (49,434,764)**	**$ 48,502**

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

Telson Resources Inc.
Consolidated Statements of Cash Flows

Unaudited - (Expressed in Canadian dollars)

	Three months ended Aug 31, 2016	Three months ended Aug 31, 2015	Six months ended Aug 31, 2016	Six months ended Aug 31, 2015
Cash (used in) provided by:				
Operating activities:				
Loss for the period	$ (1,038,355)	$ (141,776)	$ (1,869,210)	$ (219,080)
Items not involving cash:				
Depreciation recorded in office, rent and administration	1,552	1,674	4,673	3,773
Accretion of provision for site reclamation and closure	1,812	–	3,714	–
Equipment write-off	19,433	–	19,433	–
Loan interest forgiven (note 9)	–	–	(42,381)	–
Unrealized foreign exchange	20,271	20,355	20,271	11,624
Share-based compensation (note 8)	202,074	–	631,594	–
Changes in non-cash working capital:				
Amounts receivable	(72,037)	(1,697)	(107,035)	(2,504)
Prepaid expenses and deposits	(28,736)	(1,458)	(27,373)	(919)
Current liabilities	235,601	(165,791)	77,034	(141,099)
Cash used in operating activities	(658,385)	(288,693)	(1,289,280)	(348,205)
Investing activities:				
Equipment additions	(140,418)	–	(143,077)	–
Proceeds from disposal of equipment	–	–	–	4,102
Cash (used in) provided by investing activities	(140,418)	–	(143,077)	4,102
Financing activities:				
Proceeds from issuance of common shares, net of share issue costs (note 7)	–	–	1,417,629	–
Long-term debt (note 5)	1,740,499	–	1,740,499	–
Repayment of cash advances (note 9)	–	(66,955)	(34,000)	(66,955)
Share subscriptions received	–	922,058	–	983,598
Cash provided by financing activities	1,740,499	855,103	3,124,128	916,643
Effect of foreign exchange rate changes on cash	(41,797)	–	(41,797)	–
Increase in cash	899,899	566,410	1,649,974	572,540
Cash, beginning of the period	1,005,109	6,576	255,034	446
Cash, end of the period	$ 1,905,008	$ 572,986	$ 1,905,008	$ 572,986

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

1. Corporate information

Telson Resources Inc. (the “Company” or “Telson”) was incorporated on April 11, 1986, under the laws of British Columbia, Canada. The Company’s head office address is 1090 West Georgia Street, Suite 450, Vancouver, British Columbia, V6E 3V7, Canada. The registered and records office address is 595 Burrard Street, Suite 700, Vancouver, British Columbia, Canada, V7X 1S8. The Company is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “TSN”.

The Company’s principal business activity is the acquisition, exploration and development of resource properties in North America. The Company has not yet determined whether its mineral property interests contain economically recoverable mineral reserves. The Company's continuing operations and the underlying value and recoverability of the amounts shown for exploration and evaluation assets are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its exploration and evaluation assets, obtaining the necessary mining permits, and on future profitable production or the proceeds from the disposition of the exploration and evaluation assets.

Effective October 20, 2015, the Company consolidated its 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.

2. Basis of presentation and going concern

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended February 29, 2016, which were filed under the Company’s profile on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were authorized for issue and approved by the Board of Directors of the Company on October 31, 2016.

(b) Basis of preparation and consolidation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale that have been measured at fair value. The functional and presentation currency is the Canadian dollar; therefore all amounts are presented in Canadian dollars unless otherwise noted.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company’s returns.

Subsidiary	Place of incorporation	Beneficial Interest
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. ("Real de la Bufa") (formerly Sacramento de la Plata, S.A. de C.V.)	Mexico	99%

2. Basis of presentation (continued)

(b) Basis of preparation and consolidation (continued)

All intercompany balances and transactions have been eliminated and where necessary adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other entities in the Company.

In the opinion of Management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three and six months period ended August 31, 2016, are not necessarily indicative of the results that may be expected for the Company's year end figures.

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

(c) Critical accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to select accounting policies and make estimates and judgments that may have a significant impact on the condensed interim 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. Actual outcomes may differ from these estimates. The Company's critical accounting judgments and estimates were presented in Note 2 of the audited annual consolidated financial statements for the year ended February 29, 2016, and have been consistently applied in the preparation of these condensed interim consolidated financial statements. No new judgements were applied for the period ended August 31, 2016.

(d) Going concern

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The ability of the Company to meet its commitments as they become due, including completion of the acquisition of an interest in and exploration and development of its mineral properties, is dependent upon the existence of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete exploration and development and upon future profitable production or proceeds from disposition of these properties. The outcome of these matters cannot be predicted at this time. These condensed interim consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

As at August 31, 2016, the Company had cash in the amount of $1,905,008 (February 29, 2016 – $255,034) and working capital of $1,142,793 (February 29, 2016 – ($655,380)).

(e) Changes in accounting policies and disclosures

The following new accounting standards and amendments are effective for future periods and have not been adopted by the Company:

- IFRS 9, Financial Instruments as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2018. The Company will evaluate the impact of the change to the financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

2. Basis of presentation (continued)

(e) Changes in accounting policies and disclosures (continued)

- On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The impact of adoption of the standard has not yet been determined.

- In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. IFRS 16 completes the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases Standard, IAS 17 Leases and related interpretations. The impact of adoption of the standard has not yet been determined.

3. Exploration and evaluation assets

(a) Tahuehueto project

In 1997, the Company through one of its wholly owed subsidiaries entered into a share purchase agreement (the "Real Agreement") to purchase 90% of the issued and outstanding shares of Real de la Bufa, which holds a 100% interest in the Tahuehueto mineral property, located in Durango State, Mexico. In 2007 the Company converted into equity a portion of its inter-company debt with Real de la Bufa, thereby increasing its ownership to 99%. A portion of the Tahuehueto mineral property is subject to a 1.6% net smelter return royalty ("NSR").

Pursuant to the Real Agreement, the Company is obligated to make final payments of US$200,000 to the some of the Real de la Bufa's shareholders.

Based upon regional reconnaissance work in and around Tahuehueto, Telson staked additional concessions covering approximately 5,429 hectares to encompass most of the prospective ground in the Tahuehueto district. This staking brings Telson's total Tahuehueto project area to 7,492 hectares, which covers at least 12 known mineralized zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres.

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

(b) 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. Subsequently in 2015, the Company transferred title of the remaining mineral properties staked by its subsidiary Samarkand to one of the optionors.

(c) The Company's capitalized costs related to exploration and evaluation assets is as follows:

Acquisition related costs for the Tahueheuto project, as at August 31, 2016 and February 29, 2016 is $576,525.

(Expressed in Canadian dollars, unless otherwise stated)

4. Equipment

	Camp and field equipment	Mobile equipment	Office equipment	Total
Cost				
Balance, February 29, 2016	$ 150,101	$ 43,047	$ 137,227	$ 330,375
Additions	143,077	-	-	143,077
Equipment write off	(150,101)	(16,439)	(137,227)	(303,767)
Balance, August 31, 2016	$ 143,077	$ 26,608	$ -	$ 169,685
Accumulated depreciation				
Balance, February 29, 2016	$ 144,986	$ 15,677	$ 122,049	$ 282,712
Depreciation for the period	587	2,529	1,557	4,673
Equipment write off	(145,573)	(15,155)	(123,606)	(284,334)
Balance, August 31, 2016	$ -	$ 3.051	$ -	$ 3,051
Net book value				
February 29, 2016	$ 5,115	$ 27,370	$ 15,178	$ 47,663
August 31, 2016	$ 143,077	$ 23,557	$ -	$ 166,634

5. Long-term debt

On July 22, 2016, the Company entered into an agreement for a MXN$150,000,000 Mexican pesos line of credit (the "LOC"). The funds drawn down under the LOC accrue interest at a rate of 15% per year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back any cash disbursements in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default of any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The funds from the LOC are to be applied towards the Company's investment plan established in its recently completed Internal Scoping Study. The obligations of the Company under the LOC are secured by substantially all of the Company's assets.

Effective July 29, 2016, the Company draw down from its LOC an amount of MXN$25,000,000 Mexican pesos primarily to commence mine development work on its Tahehueto project. The outstanding Long-term debt is as follows:

	August 31, 2016	February 29, 2016
Balance, beginning of period	$ -	$ -
Foreign exchange adjustment	-	-
Amounts drew down from the LOC	1,740,499	-
Accrued interest	23,831	
Balance, end of period	1,764,330	-
Less current portion of the obligation	-	-
Non-current liabilities	$ 1,764,330	$ -

(Expressed in Canadian dollars, unless otherwise stated)

5. Long-term debt (continued)

Contractual principal repayments as at August 31, 2016, are as follows:

Year of repayment	Amount of repayment
2019	$ 362,604
2020	870,249
2021	507,646

Related to the long-term debt, the Company during the three and six months ended August 31, 2016 recorded interest expense in the amount of $23,831 and $23,831 respectively (August 31, 2015 – $nil and $nil, respectively).

6. Provision for site reclamation and closure

The Company recognizes a provision for site reclamation and closure in respect to its Tahuehueto project based on reclamation standards that meet Mexican regulatory requirements.

The following is a continuity of the obligation for site reclamation and closure:

	August 31, 2016	February 29, 2016
Balance, beginning of period	$ 100,319	$ 183,303
Foreign exchange adjustment	(7,082)	(19,425)
Change in estimate	-	(63,559)
Accretion expense	3,714	-
Balance, end of period	96,951	100,319
Less current portion of the obligation	-	-
Non-current liabilities	$ 96,951	$ 100,319

7. Share capital

Effective October 20, 2015, the Company consolidated its 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.

(a) Authorized

Unlimited number of 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

(b) Common shares issued during the period

On April 26, 2016, the Company completed a non-brokered private placement for gross proceeds of $1,484,080 by issuing 12,367,333 Units of the Company. Each Unit is priced at $0.12 and is comprised of one common share and one half purchase warrant. Each whole purchase warrant is exercisable into a common share of the Company at a price of $0.12 per share for a period of 24 months from the date of issuance. All securities issued under the non-brokered private placement are subject to a hold period expiring four months and one day after the closing date.

In connection to the non-brokered private placement, the Company incurred costs of issuance in the amount of $15,709, which mainly includes legal and regulatory costs.

There were no common share transactions during the six months period ended August 31, 2015.

(Expressed in Canadian dollars, unless otherwise stated)

8. Equity reserves

(a) Share-based payments

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 stock options to directors, officers, employees and other service providers 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. Stock 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. The stock options vest as to 33.33% on the date of the grant and 33.33% every six months thereafter for a total vesting period of 12 months.

The continuity of the number of stock options issued and outstanding is as follows:

	Number of stock options	**Weighted average exercise price**
Outstanding, February 29, 2016	-	$ -
Granted	6,950,000	0.13
Outstanding, August 31, 2016	6,950,000	$ 0.13

As at August 31, 2016, the number of stock options outstanding and exercisable was:

			Outstanding			Exercisable
Expiry date	Number of options	Exercise price	Remaining contractual life (years)	Number of options	Exercise price	Remaining contractual life (years)
March 22, 2021	6,950,000	$ 0.13	4.56	2,316,667	$ 0.13	4.56

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and others providing similar services. During the three and six months ended August 31, 2016, an amount of $202,074 and $631,594, respectively (August 31, 2015 – $nil and $nil, respectively) was expensed as stock based compensation. The fair value was calculated as of the date of grant using the Black-Scholes option pricing model with the following assumptions and inputs:

	March 22, 2016
Risk-free interest rate	0.74%
Expected dividend yield	nil
Stock price volatility	205%
Expected life (in years)	5

The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on the Government of Canada benchmark bond yields and treasury bills with a remaining term that approximates the expected life of the stock options.

During the six months ended August 31, 2015, the Company did not grant stock options.

(Expressed in Canadian dollars, unless otherwise stated)

8. Equity reserves (continued)

(b) Share purchase warrants

The continuity of the number of share purchase warrants is as follows:

	Warrants outstanding	Exercise price
Outstanding, February 29, 2016	20,000,000	$ 0.05
Granted	6,183,667	0.12
Outstanding, August 31, 2016	26,183,667	$ 0.07

As at August 31, 2016, the expiration date on the share purchase warrants outstanding is as follows:

Number of warrants	Exercise price	Expiry date
16,520,000	$ 0.05	November 17, 2017
3,480,000	0.05	December 9, 2017
6,183,667	0.12	April 26, 2018

During the six months ended August 31, 2016 and 2015, the Company did no issue any share purchase warrants.

9. Related party balances and transactions

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. During the three and six months ended August 31, 2016 and 2015, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended August 31, 2016	Three months ended August 31, 2016	Six months ended August 31, 2016	Six months ended August 31, 2015
Compensation to key management personnel	$ 89,793	$ 32,500	$ 163,421	$ 61,000
Share-based payments	138,937	-	429,393	-
Services recorded as exploration and evaluation expenditures	2,688	-	5,376	-
Loan repayments	-	-	34,000	-
Interest on loans	23,831	10,626	23,831	22,081
Total transaction for the periods	$ 255,249	$ 43,126	$ 656,021	$ 39,955

As at August 31, 2016, directors and officers or their related companies were owed $39,000 (February 29, 2016 – $299,317) mainly in respect to services rendered and financing provided. All of these amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

During the three and six months ended August 31, 2016, the Company settled a loan interest payable in the amount of $67,381 (February 29, 2016: $67,381) owed to a former director of the Company by a cash payment of $25,000. The remaining interest payable in the amount of $42,381 (August 31, 2015 – $ nil) was forgiven and recorded as interest and other income in the statement of loss and comprehensive loss.

9. Related party balances and transactions (continued)

During the three and six months ended August 31, 2016, the Company entered into a financing arrangement for a line of credit in the amount of MXN$150,000,000 Mexican pesos with one of its shareholders. Effective July 29, 2016, the Company drew down an amount of MXN$25,000,000 Mexican pesos or approximately $1,740,499 to commence mine development on its mining project. The line of credit bears interest at 15% per year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. The Company is also required to pay back any cash disbursements in 24 equal consecutive monthly installments following a 36-month grace period. The Company may repay any outstanding balance at any time without penalty. In case of default of any payment the Company will pay a moratorium interest rate of 30% per annum. The line of credit is secured by substantially all of the Company's assets.

As at August 31, 2016, the Company's owing balance under the line of credit including accrued interest is $1,764,330. During the three and six months ended August 31, 2016, the Company recorded interest expense in the amount of $23,831 and $23,831 respectively (August 31 2015 – $nil and $nil respectively).

10. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of the financial instrument from an independent third party. Given the varying influencing factors, the reported fair values are only indicators of the prices that may actually be realized for these 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

The Company recorded at fair value the following financial instruments under Level 1 of the fair value hierarchy, as at August 31, 2016: Cash, the carrying amounts of amounts receivable, prepaid and deposits, accounts payable and accrued liabilities due to the short term to maturity of such instruments. The fair value of the long-term debt has been determined based on Level 1 and approximates their carrying values, as the cost of the long-term debt is consistent with market rates.

The Company is exposed in varying degrees to a variety of financial instrument related risk such as:

(a) Credit risk

Credit risk is the risk that a third party fails to discharge its obligations under the terms of the financial contract and causes a financial loss for the Company. The Company's credit risk is attributable to its cash, amounts receivable, and prepaid expenses and deposits. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash balances in highly rated financial institutions. The Company considers the risk of loss associated with cash to be low.

10. Financial instruments (continued)

(a) Credit risk (continued)

The Company's amounts receivables and prepaid expenses and deposits consist primarily of tax receivables due from federal government agencies. Management is confident that their carrying values are recoverable in full and this risk is minimal.

As at August 31, 2016, the Company's maximum exposure to credit risk is the carrying value of its cash, amounts receivable, and prepaid expenses and deposits.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants.

As at August 31, 2016, all of the Company's financial liabilities and non-derivative liabilities mature within twelve months of the statement of financial position date, except for:

(i) Long-term debt (note 5), which has contractual principal repayments of $362,604 during 2019, 870,249 during 2020, and $507,646 during 2021.

(c) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Significant market risks to which the company is exposed are as follows:

(i) Foreign currency risk

The Company is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency (the Canadian dollar). The Company operates in foreign jurisdictions, which use both the Mexican Peso and United States Dollar. The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations. The effect of a 10% change in foreign exchange rates would change the Company's loss and comprehensive loss by approximately $102,894.

(ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At August 31, 2016, the Company's long-term debt are at fixed rates, hence there is no market risk arising from the fluctuations in floating interest rates. Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

(d) Commodity and equity price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore and develop its exploration and evaluation assets and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold prices to determine the appropriate course of action to be taken by the Company. Equity price risk is defined as the potential adverse impact on the Company's performance due to movements in individual equity prices or general movements in the level of the stock market.

(Expressed in Canadian dollars, unless otherwise stated)

11. 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 or Mexican chartered bank account. Cash consist of cash on hand and balances with banks.

The Company expects its current capital resources will be sufficient to carry its operations, exploration and development plans for the foreseeable future.

12. Segmented information

The Company operates in one reportable operating segment, being the acquisition, exploration and development of mineral resource properties. Geographic segmentation of non-current assets is as follows:

August 31, 2016	Canada	Mexico	Total
Equipment, net	$ -	$ 166,634	$ 166,634
Exploration and evaluation assets	-	576,525	576,525
	$ -	$ 743,159	$ 743,159

February 29, 2016	Canada	Mexico	Total
Equipment, net	$ 8,420	$ 39,243	$ 47,663
Exploration and evaluation assets	-	576,525	576,525
	$ 8,420	$ 615,768	$ 624,188

During the three months ended August 31, 2016 and 2015, the Company did not have revenues.

13. Subsequent events

Subsequent to August 31, 2016, a total of 15,417 share purchase warrants were exercised with an exercise price of $0.12 for gross proceeds of $1,850.