



TELSON RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2017 and 2016

UNAUDITED

(Expressed in Canadian dollars)

TELSON RESOURCES INC.

(the "Company")

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2017 and 2016

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.

November 29, 2017

Telson Resources Inc.
Consolidated Statements of Financial Position

Unaudited - (Expressed in Canadian dollars)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	\$ 4,627,473	\$ 2,489,614
Amounts receivable (note 4)	3,070,629	426,785
Prepaid expenses and deposits	201,734	41,916
Materials and supplies inventory (note 3)	13,057,959	–
	20,957,795	2,958,315
Non-current assets:		
Mineral interest and development assets (note 5)	1,303,703	576,525
Property, plant and equipment (note 6)	122,011,549	199,258
Deferred income tax (note 3)	43,888,056	–
Total assets	\$ 188,161,103	\$ 3,734,098
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,367,286	\$ 738,551
Obligation under share purchase agreement (note 5)	248,100	268,540
Current portion of the long-term debt (note 7)	2,395,264	128,231
Nyrstar Mining Ltd (note 3)	26,164,024	–
	36,174,674	1,135,322
Non-current liabilities:		
Long-term debt (note 7)	8,828,802	4,231,495
Provision for site reclamation and closure	1,903,541	94,039
Other long term debt (note 3)	357,144	–
Total liabilities	\$ 47,264,161	\$ 5,460,856
Equity (Deficiency)		
Share capital (note 8)	\$ 53,676,099	\$ 48,853,522
Equity reserves (note 9)	792,788	754,912
Retained earnings (deficit)	86,428,055	(51,335,192)
Total equity (deficiency)	140,896,942	(1,726,758)
Total liabilities and equity	\$ 188,161,103	\$ 3,734,098

Basis of presentation and going concern (note 2)

Subsequent events (note 15)

Approved by the Board of Directors on November 29, 2017, and signed on the Company's behalf by:

"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) Income and Comprehensive (Loss) Income

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating Expenditures:				
Assaying, data and maps	\$ –	\$ 156	\$ –	\$ 398
Camp cost, equipment and field supplies	460,114	91,176	460,114	148,139
Advancement of property	–	89,959	–	89,959
Freight and related costs	87,870	–	87,870	–
Fuel and consumables	132,088	19,155	132,088	21,608
Supplies, lubricant and other	194,487	–	194,487	–
Power consumption	68,140	–	68,140	–
Project general and office expenses	182,243	11,703	182,243	34,119
Geological and external services	36,012	98,274	36,012	190,649
Permitting, environmental and community costs	–	79,836	–	297,801
Salaries and wages	665,849	96,892	665,849	161,943
Travel and accommodation	34,201	9,830	34,201	22,794
Accretion of provision for site reclamation and closure	–	–	–	10,744
Change in reclamation estimate provision	–	7,107	–	(57,569)
Depreciation	1,218,653	11,803	1,218,653	14,424
	3,079,657	515,891	3,079,657	935,009
General Expenses:				
Consulting fees, wages and benefits (note 12)	\$ 226,845	\$ 190,626	\$ 626,359	\$ 482,639
Legal and professional fees	7,963	25,025	169,668	153,156
Office, rent and administration	110,925	155,427	278,703	145,359
Regulatory, transfer agent and shareholder information	(21,719)	4,400	22,312	19,541
Travel, promotion and investor relations	120,936	30,680	254,349	45,236
Share-based compensation (note 9(a))	–	427,232	60,304	856,752
Depreciation	–	503	–	1,419
	444,950	833,893	1,411,695	1,704,102
Other expense (income):				
Interest and other income	\$ (1,472)	\$ (2,668)	\$ (1,937)	\$ (3,362)
Bargain purchase gain (note 3)	36,513,456	–	(140,761,070)	–
Gain on settlement of debt (note 12)	–	–	–	(42,381)
Financing and interest costs (note 7)	43,327	24,065	183,047	24,065
Foreign exchange gain	(2,226,056)	(14,730)	(1,674,639)	(101,130)
	34,329,255	6,667	(142,254,599)	(122,808)
Total (loss) income and comprehensive (loss) income for the period	\$ (37,853,862)	\$ (1,356,451)	\$ 137,763,247	\$ (2,516,303)
Weighted average number of shares outstanding (note 11)				
Basic	94,016,995	92,885,578	93,891,614	87,604,637
Diluted	118,667,559	92,885,578	118,542,178	87,604,637
Earnings per share (note 11)				
Basic	\$ (0.40)	\$ (0.01)	\$ 1.47	\$ (0.03)
Diluted	\$ (0.32)	\$ (0.01)	\$ 1.16	\$ (0.03)

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 for number of common shares)

	Number of common shares	Share capital	Equity reserves	Deficit	Total
Balance as at December 31, 2015	80,518,245	\$ 46,983,300	\$ 400,000	\$ (47,387,034)	\$ (3,734)
Shares issued pursuant to private placement	12,367,333	1,468,371	-	-	1,468,371
Share purchase warrants expired	-	400,000	(400,000)	-	-
Share-based compensation (note 9(a))	-	-	856,572	-	856,572
Loss and comprehensive loss for the period	-	-	-	(2,516,303)	(2,516,303)
Balance as at September 30, 2016	92,885,578	\$ 48,851,671	\$ 856,572	\$ (49,903,337)	\$ (195,094)
Balance as at December 31, 2016	92,900,995	\$ 48,853,522	\$ 754,912	\$ (51,335,192)	\$ (1,726,758)
Shares issued pursuant to private placement	6,683,236	3,623,872	-	-	3,623,872
Conversion of convertible debenture into shares	3,448,774	1,069,120	-	-	1,069,120
Share purchase warrants exercised	1,501,443	82,860	-	-	82,860
Stock options exercised	186,900	24,297	-	-	24,297
Fair value of stock options allocated to share capital issued on exercise	-	22,428	(22,428)	-	-
Share-based compensation (note 9(a))	-	-	60,304	-	60,304
Income and comprehensive income for the period	-	-	-	137,763,247	137,763,247
Balance as at September 30, 2017	104,721,348	\$ 53,676,099	\$ 792,788	\$ 86,428,055	\$ 140,896,942

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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash (used in) provided by:				
Operating activities:				
(Loss) income for the period	\$ (37,853,862)	\$ (1,356,451)	\$ 137,763,247	\$ (2,516,303)
Items not involving cash:				
Depreciation	1,233,899	12,306	1,253,110	15,843
Accretion of provision for site reclamation and closure	1,968	-	5,807	10,744
Change in reclamation estimate provision	-	7,107	-	(57,569)
Unrealized foreign exchange	(1,741,615)	17,105	(1,422,183)	(32,929)
Share-based compensation (note 9(a))	-	427,232	60,304	856,752
Accrued Interest of long term debt	171,376	-	505,712	-
Bargain purchase gain (note 3)	36,513,456	-	(140,761,070)	-
Changes in non-cash working capital:				
Amounts receivable	(1,496,479)	(110,171)	(1,592,607)	(185,942)
Prepaid expenses and deposits	(399,462)	(14,951)	(396,862)	(6,721)
Current liabilities	2,167,338	107,941	2,524,630	(203,230)
Cash used in operating activities	(1,403,381)	(909,882)	(2,059,912)	(2,119,355)
Investing activities:				
Plant and equipment additions	(29,872)	(153,213)	(1,547,542)	(164,432)
Mineral interest and development assets additions	(203,960)	-	(540,974)	-
Acquisition of Campo Morado, net of cash acquired (note 3)	-	-	(4,626,168)	-
Cash used in investing activities	(233,832)	(153,213)	(6,714,684)	(164,432)
Financing activities:				
Proceeds from issuance of common shares, net of share issue costs (note 8)	(24,474)	-	4,692,992	1,468,372
Interest paid	(86,447)	-	(86,447)	-
Long-term debt	6,063,425	1,718,108	6,063,425	1,718,108
Proceeds in connection to warrants and stock options exercised	41,357	-	107,157	-
Conversion of convertible debenture into shares	-	-	-	-
Cash provided by financing activities	5,993,861	1,718,108	10,777,127	3,186,480
Effect of foreign exchange rate changes on cash	8,958	(16,286)	135,328	(25,612)
Increase in cash	4,365,606	638,727	2,137,859	877,081
Cash, beginning of the period	261,867	771,985	2,489,614	533,631
Cash, end of the period	\$ 4,627,473	\$ 1,410,712	\$ 4,627,473	\$ 1,410,712

Supplemental cash flow information (note 10)

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

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

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 is in the business of acquiring, exploring, developing and operating mineral resource properties in North America.

The Company is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “TSN”. 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.

2. BASIS OF PRESENTATION AND GOING CONCERN

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 ten months ended December 31, 2016, which were filed under the Company’s profile on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 29, 2017.

Comparative figures

During 2016, the Company changed its year-end from February 28 to December 31 with the objective to unify reporting periods for all its subsidiaries and to align with its industry peers. Additionally, comparative financial statements have been prepared for the three and nine months ended September 30, 2016 and have not been presented in prior periods.

Certain prior year’s figures and line items have been reclassified to conform to the current period’s presentation.

Basis of preparation and consolidation

This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited financial statements of the Company for the ten months ended December 31, 2016.

These condensed interim consolidated financial statements include the financial statements of Telson Resources Inc., and entities controlled by the Company (its subsidiaries). The following is a list of subsidiaries;

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

Basis of preparation and consolidation (continued)

Subsidiary	Place of incorporation	Beneficial Interest
Samarkand de Mexico, S.A. de C.V.	Mexico	100%
Sierra Soleada S.A. de C.V.	Mexico	100%
Real de la Bufa S.A. de C.V. (formerly Sacramento de la Plata, S.A. de C.V.)	Mexico	99%
Nyrstar Campo Morado, S.A. de C.V.	Mexico	99%
Prestadora de Servicios Arcelia, S.A. de C.V.	Mexico	99%
Minas de Arcelia, S.A. de C.V.	Mexico	99%
Grupo Minero Mexicano Nyrstar, S.A. de C.V.	Mexico	99%
Grupo Minero HD, S.A. de C.V.	Mexico	99%

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. All intercompany balances and transactions have been eliminated upon consolidation.

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information. The presentation currency is the Canadian dollar; therefore, references to \$ means Canadian dollars, US\$ are to US dollars and MXN\$ to Mexican pesos.

Critical accounting estimates and judgments

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 ten months ended December 31, 2016, and have been consistently applied in the preparation of these condensed interim consolidated financial statements, except for the following:

1. Business Combination

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 - Business Combinations.

Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Campo Morado (the "Campo Morado Acquisition") met the criteria of a business combination and the Campo Morado Acquisition has been accounted for as such or as a business combination.

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

Critical accounting estimates and judgments (continued)

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 September 30, 2017, the Company had cash in the amount of \$4,627,473 (December 31, 2016 – \$2,489,614) and working capital of \$(15,216,879) (December 31, 2016 – \$1,822,993).

3. ACQUISITION OF CAMPO MORADO

On June 13, 2017, the Company entered into a definitive Share Purchase Agreement (the "Campo Morado Agreement") with Nyrstar Mining Ltd. and Nyrstar Mexico Resources Corp. (collectively "Nyrstar") to purchase all the shares of Nyrstar's Mexican subsidiary companies that make up and own 100% of the Campo Morado mine, located in Guerrero State, Mexico.

Under the terms of the Campo Morado Agreement, the Company has agreed to pay total purchase price of US\$20 million plus any applicable taxes, as described below, to Nyrstar under the following schedule:

- US\$800,000 at signing of the Agreement (Paid);
- US\$2.7 million on or before June 12, 2017 (Paid);
- US\$16.5 million on or before June 13, 2018.

As part of the Campo Morado Agreement, Nyrstar also retained the right to receive a variable purchase price on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado Mine when the price of zinc is at or above US\$2,100 per tonne. Telson shall pay Nyrstar the greater of either:

- i. US\$20 per tonne of zinc sold if the zinc price received is over US\$2,100 per tonne; or
- ii. a percentage that range between 0.5% and 4.25% of the net smelter revenues received from zinc when the price of zinc range between US\$1,200 and US\$2,500 from the Campo Morado Mine.

The Company maintains the right under the Campo Morado Agreement to purchase 100% of the variable purchase price at any time for US\$4 million.

For accounting purposes, the Campo Morado Acquisition was accounted for as a business combination and the acquisition method of accounting was used, whereby the purchase price is allocated to the identifiable assets and liabilities on the basis of fair value at the acquisition date. As the entities acquired were under care and maintenance for about 18 months before the acquisition date, minimal or no transactions occurred during the period from June 13 and June 30, therefore for accounting purposes the Company treated this transaction as if it had been closed on June 30.

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

3. ACQUISITION OF CAMPO MORADO (continued)

As of the date of these condensed interim consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of the net assets acquired, assessing and measuring the associated deferred income tax assets and liabilities and potential bargain purchase gain on the acquisition. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary fair value below and are subject to change within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

Transaction costs associated with the acquisition totaling \$91,690 were expensed as incurred. Campo Morado's operations have been included in the Company's results of operations from the acquisition date.

The allocation of the purchase price, based on provisional management's estimates of the relative fair value of assets acquired and liabilities assumed is as follows:

Total purchase price:	
Cash consideration paid	\$ 4,665,820
Cash consideration payable	21,842,700
Fair value of the variable purchase price	6,078,248
Total purchase price to allocate	\$ 32,586,768
Cost of assets acquired and liabilities assumed:	
Cash	\$ 39,652
Amounts receivable and prepaid expenses	1,096,061
Materials and supplies inventory	13,051,934
Property, plant and equipment	121,517,949
Deferred income tax	43,888,056
Accounts payable and accrued liabilities	(3,938,496)
Other long-term liabilities	(382,194)
Provision for site reclamation and closure	(1,925,123)
	\$ 173,347,838

The business combination resulted in a bargain purchase transaction because the fair value of assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid. The fair value of assets acquired include material amounts for supplies inventory, property, plant and equipment which were previously impaired and translated into a higher net cost of assets acquired and liabilities assumed when compared to the purchase price negotiated. The Company recognized an amount of \$140,761,070 in the consolidated statement of income (loss) and comprehensive income (loss) as a bargain purchase gain under other income during the current period.

4. AMOUNTS RECEIVABLE

	September 30, 2017	December 31, 2016
Mexican value added tax recoverable	\$ 2,337,960	\$ 352,238
Canadian goods and service tax recoverable	37,413	13,615
Other receivables	695,256	60,932
Total amounts receivable	\$ 3,070,629	\$ 426,785

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

5. MINERAL INTEREST AND DEVELOPMENT ASSETS

Tahuehueto Project

In 1997, the Company through a wholly owned subsidiary 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 in the amount of \$248,100 (US\$200,000) (December 31, 2016 \$268,540 (US\$200,000)) to some of the Real de la Bufa's shareholders.

Based upon regional reconnaissance work in and around Tahuehueto, Telson staked additional concessions to encompass most of the prospective ground in the Tahuehueto district.

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.

Acquisition and development related costs for the Tahuehueto project, as at September 30, 2017 and December 31, 2016 are as follows:

	Amount
Balance as at December 31, 2015	\$ 576,525
Acquisition cost:	
Additions	-
Balance as at December 31, 2016	\$ 576,525
Development costs:	
Assaying, data and maps	10,185
Camp cost, equipment and field supplies	359,517
Development costs	582,786
Freight and related costs	715,070
Fuel and consumables	127,037
Project general and office expenses	88,947
Geological consulting services	183,878
Permitting, environmental and community costs	304,712
Salaries and wages	461,064
Travel and accommodation	101,424
Accretion of provision for site reclamation and closure	5,807
Depreciation	34,457
Royalties	59,482
Interest incurred	265,593
Recovery of expenses	(2,572,781)
Total additions for the period	727,178
Balance as at September 30, 2017	\$1,303,703

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

5. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

Tahuehueto Project (continued)

Based on positive results from the pre-feasibility study the Company has proven and probable mineral reserves and effective January 1, 2017 began capitalizing costs associated with the development of the Tahuehueto Project.

6. PROPERTY, PLANT AND EQUIPMENT

	Land and improvements	Plant	Camp and field equipment	Mine development	Construction in progress	Total
Cost						
Balance, December 31, 2016	\$ -	\$ -	\$ 209,478	\$ -	\$ -	\$ 209,478
Acquisition of Campo Morado	20,891,612	36,673,132	8,883,643	37,324,210	17,745,352	121,517,949
Additions	-	1,300,000	247,452	-	-	1,547,542
Balance, September 30, 2017	\$ 20,891,612	\$ 37,973,132	\$ 9,340,573	\$ 37,324,210	\$ 17,745,352	\$ 123,274,879
Accumulated depreciation						
Balance, December 31, 2016	\$ -	\$ -	\$ 10,220	\$ -	\$ -	\$ 10,220
Depreciation for the period	290,160	611,219	351,731	-	-	1,253,110
Balance, September 30, 2017	\$ 290,160	\$ 611,219	\$ 361,951	\$ -	\$ -	\$ 1,263,330
Net book value						
December 31, 2016	\$ -	\$ -	\$ 152,562	\$ -	\$ -	\$ 199,258
September 30, 2017	\$ 20,601,452	\$ 37,361,913	\$ 8,978,622	\$ 37,324,210	\$ 17,745,352	\$ 122,011,549

7. LONG-TERM DEBT

1. Line of Credit

On July 22, 2016, the Company entered into an agreement for a MXN\$150,000,000 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 the Company's assets, including certain mining concessions.

The Company has drawn down from its LOC a total amount of MXN\$65,000,000 primarily to further its Tahuehueto project. The continuity of the outstanding long-term debt is as follows:

Telson Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

For the three and nine months ended September 30, 2017 and 2016

7. LONG-TERM DEBT (continued)

1. Line of Credit (continued)

	Amount
Balance, December 31, 2016	\$ 4,359,726
Foreign exchange adjustment	218,631
Accrued interest	505,712
Interest paid	(86,447)
Balance, September 30, 2017	4,997,622
Less current portion of the obligation (accrued interest)	(1,154,762)
Non-current liabilities	\$ 3,842,860

2. Loan Facility

On September 11, 2017, the Company entered into a loan agreement ("Loan Agreement") with Trafigura Mexico, S.A. de C.V. in the amount of US\$5 million for financing working capital to initiate the restart of continuous mining operations at the Campo Morado mining facility. The loan bears interest at an effective annual rate equivalent to LIBOR (3M) plus 5%, it has a three year term with six months grace period followed by thirty monthly repayments. In connection to the loan agreement the Company also entered into an Offtake agreement ("Offtake Agreement") in which the Company will sell all of its zinc and lead concentrates for a fifty one month term.

	Amount
Balance, December 31, 2016	\$ -
Cash advanced from the Loan Agreement	6,063,425
Foreign exchange adjustment	163,019
Balance, September 30, 2017	6,226,444
Less current portion of the obligation	(1,240,502)
Non-current liabilities	\$ 4,985,942

8. SHARE CAPITAL

Common shares transactions

Nine months ended September 30, 2017

- i. During the nine months ended September 30, 2017, the Company issued 1,501,443 common shares for gross proceeds of \$82,860 in connection with warrants exercised.
- ii. During the nine months ended September 30, 2017, the Company issued 186,900 common shares for gross proceeds of \$24,297 in connection with stock options exercised. Attributed to these stock options, fair value of \$22,428 was transferred from the equity reserves and recorded against share capital.
- iii. On June 30, 2017, the Company issued 3,448,774 common shares as a result of converting all of its convertible debenture into shares as a request of the subscriber. The common shares were issued at a price of \$0.31 for gross proceeds of \$1,069,120. The Company did not incur in any additional issuance costs.

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8. SHARE CAPITAL (continued)

Common shares transactions (continued)

Nine months ended September 30, 2017 (continued)

- v. On June 30, 2017, the Company completed a non-brokered private placement for gross proceeds of \$3,675,780 by issuing 6,683,236 common shares of the Company at a price of \$0.55. The Company incurred \$51,908 in connection to the private placement which mainly include legal and regulatory costs.

Nine months ended September 30, 2016

- vi. During the nine months ended September 30, 2016, warrants expired without being exercised and a fair value of \$400,000 was transferred from equity reserves and recorded against share capital.
- vii. 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.

9. EQUITY RESERVES

a) Share-based compensation

The Company has a Stock Option Plan (the "Plan") providing for the issuance of 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 granted 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, December 31, 2015	-	\$ -
Granted	6,950,000	0.13
Outstanding, December 31, 2016	6,950,000	\$ 0.13
Exercised	(186,900)	0.13
Outstanding, September 30, 2017	6,763,100	\$ 0.13

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9. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

As at September 30, 2017, the number of stock options outstanding and exercisable was:

Expiry date	Outstanding		Exercisable			
	Number of options	Exercise price	Remaining contractual life (years)	Number of options	Exercise price	Remaining contractual life (years)
March 22, 2021	6,763,100	\$ 0.13	3.48	6,763,100	\$ 0.13	3.48

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 nine months ended September 30, 2017 an amount of \$nil and \$60,304, respectively (September 30, 2016 - \$nil and \$856,752, respectively) was expensed as share-based compensation.

During the three and nine months ended September 30, 2017 the Company did not grant stock options.

During the three and nine months ended September 30, 2016, the Company granted a total of 6,950,000 with a fair value of \$0.12 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.

As at September 30, 2017, the share purchase warrants outstanding are as follows:

Number of warrants	Exercise price	Expiry date
15,129,817	\$ 0.05	November 17, 2017
3,480,000	0.05	December 9, 2017
6,057,000	0.12	April 26, 2018
2,666,817	\$ 0.07	

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10. SUPPLEMENTAL CASHFLOW INFORMATION

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30,2017	Nine months ended September 30, 2016
Accounts payable and accrued liabilities included in mineral interest and development assets	\$ 184,462	\$ -	\$ 186,204	\$ -
Interest of long term debt capitalized as mineral interest and development assets	64,991	-	265,593	-
Depreciation capitalized as mineral interest and development assets	15,246	-	34,457	-

11. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net income (loss) for the period by the weighted average number of ordinary shares outstanding during the period.

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30,2017	Nine months ended September 30,2016
(Loss) income attributable to common shareholders	\$ (37,853,862)	\$ (1,356,451)	\$ 137,763,247	\$ (2,516,303)
Weighted average number of shares	94,016,995	92,885,578	93,891,614	87,604,637
Dilutive stock options and warrants	24,650,564	-	24,650,564	-
Weighted average number of outstanding shares for diluted earnings per share	118,667,559	92,885,578	118,542,178	87,604,637
Basic (loss) earnings per share	\$ (0.40)	\$ (0.01)	\$ 1.47	\$ (0.03)
Diluted (loss) earnings per share	\$ (0.32)	\$ (0.01)	\$ 1.16	\$ (0.03)

The Company incurred a net loss for the three and nine months period ended September 30, 2016, therefore all outstanding stock options and share purchase warrants have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

12. 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 nine months ended September 30, 2017 and 2016, the Company incurred the following charges by key management personnel, including directors and officers of the Company and companies controlled by directors and officers of the Company:

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12. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Compensation to key management personnel	\$ 117,438	\$ 74,134	\$ 345,073	\$ 149,245
Share-based compensation	-	105,713	40,998	290,438
Exploration and evaluation expenditures	-	-	-	5,330
Loan repayment	-	59,000	-	59,000
Expenses recorded under office, rent and administration	2,583	2,616	10,107	8,878
	\$ 120,021	\$ 241,463	\$ 396,178	\$ 512,891

As at September 30, 2017, directors and officers or their related companies were owed \$81,126 (December 31, 2016 – \$99,054) included in accounts payable and accrued liabilities mainly in respect to services rendered and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

As at September 30, 2017, directors and officers or their related companies owed the Company \$nil (December 31, 2016 – \$6,456) included in prepaid expenses and deposits.

During the nine months period ended September 30, 2016, the Company settled a loan interest payable in the amount of \$67,381 owed to a former director of the Company by a cash payment of \$25,000 resulting in a gain on settlement of debt in the amount of \$42,381.

13. 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 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 September 30, 2017 and December 31, 2016, the carrying amounts of amounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, interest accrued of the long-term debt and Nyrstar Mining Ltd., due to the short term to maturity of such instruments. The long term-debt is designated as a non-current liability, which we measure at amortized cost.

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

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13. FINANCIAL INSTRUMENTS (continued)

(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 and amounts receivable. 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.

The Company's amounts receivable consists 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.

(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.

(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 (MXN\$) and United States Dollar (US\$). 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 \$3,390,865.

(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 September 30, 2017, the Company's long-term debt are at fixed and floating rates and has not entered, into any financial derivatives or other financial instruments to hedge against this risk. The Company's Loan Agreement bears interest at a variable rate; however, interest risk exposure is in function to LIBOR (3M) rates and a variation of 1% on the interest rate would not have a significant effect on the consolidated statement of income (loss) and comprehensive income (loss). 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.

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13. FINANCIAL INSTRUMENTS (continued)

(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.

14. 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:

September 30, 2017	Canada	Mexico	Total
Plant and equipment, net	\$ -	\$ 122,011,549	\$ 122,011,549
Mineral interest and development assets	-	1,303,703	1,303,703
	\$ -	\$ 123,315,252	\$ 123,315,252

December 31, 2016	Canada	Mexico	Total
Plant and equipment, net	\$ -	\$ 199,258	\$ 199,258
Mineral interest and development assets	-	576,525	576,525
	\$ -	\$ 775,783	\$ 775,783

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2017:

1. A total of 18,943,150 share purchase warrants were exercised with an exercise price between \$0.05 and \$0.12, for gross proceeds of \$988,657.
2. A total of 350,000 stock options were exercised with an exercise price of \$0.13 for gross proceeds of \$45,500.
3. The Company granted a total of 3,730,000 stock options to directors, officers, employees and other service providers under the terms of the Company's stock option plan. The stock options have a five-year term from the date of the grant and are exercisable at a price of \$0.71 per share.