



TELSON RESORUCES INC.

Management's Discussion and Analysis

For the Three and Six Months Ended August 31, 2016

1.1 Date and forward-looking statements

This Management's Discussion and Analysis ("MD&A") of Telson Resources Inc. ("Telson" or the "Company") has been prepared by management to assist the reader to assess material changes in the condensed interim consolidated financial condition and results of operations of the Company as at August 31, 2016 and for the three and six months then ended. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended August 31, 2016 and 2015 ("Q2 2017") and the related notes thereto. All financial information has been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by the International Accounting Standards Board. All dollar amounts herein are expressed in Canadian dollars unless stated otherwise. References to US\$ are to United States dollars and MXN\$ to Mexican pesos.

The effective date of this MD&A is October 31, 2016.

The information in this MD&A contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. (See "Forward Looking Statements" below.)

Forward-looking Statements

Certain statements included in this MD&A may contain forward-looking statements that relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. These statements include, but are not limited to, statements concerning the future financial and operating performance of the Company and its search for resource properties; the future prices of natural resource based commodities; the estimation of reserves and resources; the realization of reserve estimates; timing of technical reports, scoping studies, and preliminary economic assessments; expected content of scoping studies and preliminary economic assessments; anticipated working-capital requirements; capital expenditures; costs and timing of future exploration; requirements for additional capital; government regulation of resource operations; environmental risks; title disputes or claims; and limitation of insurance coverage.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, general business and economic uncertainties; exploration and resource extraction risks; uncertainties relating to surface rights; the actual results of current exploration activities; the outcome of negotiations; conclusions of economic evaluations and studies; future prices of natural resource based commodities; increased competition in the natural resource industry for properties, equipment and qualified personnel; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; the risk of arbitrary changes in law; title risks; and the risk of loss of key personnel.

The forward-looking statements contained herein are based on a number of assumptions that the Company believes are reasonable, but may prove to be incorrect. These assumptions include, but are not limited to, assumptions that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for natural resource based commodities develops as expected; that the Company receives regulatory approvals for its exploration projects on a timely basis; that the Company is able to obtain financing for its projects on reasonable terms; that the Company's reserve estimates are within reasonable bounds of accuracy and that the geological, operational and price assumptions upon which they are based are reasonable; and that the Company is able to hire the personnel needed to carry out its business plan.

The foregoing lists of factors and assumptions are not exhaustive. The reader should also consider carefully the matters discussed under the heading "Risks Factors and Uncertainties" elsewhere in this MD&A. Forward-looking statements contained herein are made as of the date hereof (or as of the date of a document incorporated herein by reference, as applicable). No obligation is undertaken to update publicly or otherwise revise any forward-looking statements or the foregoing lists of factors and assumptions, whether as a result of new information, future events or results or otherwise, except as required by law. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

1.2 Overall performance

1.2.1 Description of business

Telson is a junior mining company focused on the acquisition, exploration and development of mineral resource properties. The Company is primarily focused on its Tahuehueto project, located in Durango State, Mexico.

The Company was incorporated on April 11, 1986, under the laws of British Columbia, Canada under the name of Soho Resources Corp. Subsequently; on January 16, 2013, the Company changed its name to Telson Resources, Inc., and is a reporting issuer in the provinces of British Columbia and Alberta, Canada. The Company is listed on TSX Venture Exchange under the symbol "TSN" and on the OTCBB under the symbol "SOHFF".

The Company's principal business activities include the acquisition, exploration and development of resource properties. The head office of the Company is located at 1090 West Georgia Street, Suite 450, Vancouver, British Columbia, V6E 3V7, Canada.

Additional information relevant to the Company can be found on SEDAR at www.sedar.com and/or the Company's web site at www.telsonresources.com.

Resource Properties and Investments

Tahuehueto Project, Mexico

The Company through one of its wholly owned subsidiaries entered into a share purchase agreement (the "Real Agreement") in 1997 to purchase 90% of the issued and outstanding shares of Real de la Bufa, S.A. de C.V., 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, S.A. de C.V., 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 mineral property 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.

Tahuehueto lies within the prolific Sierra Madre mineral belt, which hosts a series of historic and producing mines and most of Mexico's active exploration and development projects. The project is situated approximately 100 kilometres southwest of silver mines in the Guanacevi region and about 25 kilometres north of the silver mines at Topia.

Title to 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.

NI 43-101 Preliminary Economic Assessment

In 2010, Telson announced the results of a Preliminary Economic Assessment ("PEA") prepared by Snowden Mining Consultants for its Tahuehueto Project. The PEA was prepared by Snowden in accordance with the requirements of Canadian National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101"). Highlights of the PEA report are as follows:

Summary of PEA Estimates:	
Net cash flow	US\$ 184.2 million
Net Present Value (NPV) 5% Discount Rate	US\$ 109.6 million
Internal Rate of Return (IRR)	31%
Payback period	27 months
Mine life	11 years
Maximum processing rate per annum	1,000,000 tonnes
Capital & startup costs	US\$ 89.1 million

Metal Selling Prices:		
Gold	US\$965.81/oz	London PM fix price (Centennial Precious Metals, Inc. 2010)
Silver	US\$15.38/oz	London fix price (Silver Institute, 2010)
Copper	US\$2.92/lb	LME grade A cathode spot price, CIF European ports (IMF, 2010)
Lead	US\$0.95/lb	LME 99.97% pure spot price, CIF European ports (IMF, 2010)
Zinc	US\$0.88/lb	LME high grade 98% pure spot price, CIF UK ports (IMF, 2010)

Cautionary Note: Mineral resources that are not mineral reserves do not have demonstrated economic viability. The PEA is preliminary in nature, and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the results contemplated by the PEA will be realized.

The Qualified Person who has reviewed and approved the above PEA technical disclosure in this MD&A is Ralph Shearing, P. Geol, who is the Company's president and a director.

NI 43-101 Resource Calculation

In 2009, the Company released the results of the updated NI 43-101 compliant mineral resource estimate. This 2009 resource estimation was prepared by Scott E. Wilson Consulting, Inc. ("Wilson Consulting") based in Englewood, Colorado. This 2009 resource estimate is an upgrade to the Company's 2008 initial resource and is based upon detailed geological modeling of veins and stock-work zones that was not available for the initial resource estimate, plus 71 new drill holes targeting down-dip and along strike extensions of known mineralization.

2009 Tahuehueto Resource Calculation Highlights

Measured and Indicated Resources 7,377,000 Tonnes

- 2.10 g. Au/t 498,000 ounces Au
- 34.97 g. Ag/t 8,294,000 ounces Ag
- 0.28% Cu 45,339,000 lbs. Cu
- 1.06% Pb 172,738,000 lbs. Pb
- 2.01% Zn 326,653,000 lbs. Zn

Inferred Resource 4,868,000 Tonnes

- 1.06 g. Au/t 166,000 ounces Au
- 31.77 g. Ag/t 4,971,000 ounces Ag
- 0.23% Cu 24,935,000 lbs. Cu
- 1.13% Pb 132,417,000 lbs. Pb
- 2.26% Zn 242,241,000 lbs. Zn

The Tahuehueto resource estimate is categorized into Measured, Indicated and Inferred Resources as follows:

Category	Tonnes (,000's)	Gold (Au)		Silver (Ag)		Copper (Cu)		Lead (Pb)		Zinc (Zn)		
		g/t	Oz. (,000's)	g/t	Oz. (,000's)	Cu%	Lbs. (,000's)	Pb%	Lbs. (,000's)	Zn%	Lbs. (,000's)	
Measured	26%	3,254	2.40	251	36.30	3,798	0.28	20,439	1.10	79,228	2.07	148,759
Indicated	34%	4,123	1.87	248	33.92	4,496	0.27	24,900	1.03	93,511	1.96	177,894
Total M&I	60%	7,377	2.10	498	34.97	8,294	0.28	45,339	1.06	172,738	2.01	326,653
Inferred	40%	4,868	1.06	166	31.77	4,971	0.23	24,935	1.23	132,417	2.26	242,241

The cutoff grades used to determine the above mineral resources were 2 grams per ton AuEQ for sulfide mineralization and 3 grams per ton AuEQ for oxide mineralization since the potential costs to extract oxide material may be higher than the cost to process sulfide mineralization. Approximately 10% of the resource is oxide mineralization and therefore only a minor part of the resource.

The metal prices used to determine the gold equivalent grade for cutoff purposes only were \$800 per ounce for gold, \$12.00 per ounce for Silver, \$2.10 per pound for copper, \$0.65 per pound for lead and \$0.70 per pound for zinc. Gold-equivalent grades are used for cutoff purposes only.

Cautionary Note: Mineral resources that are not mineral reserves do not have demonstrated economic viability. The inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that economically viable mineral production will be realized. Converting resource estimates into economic reserves may be materially affected by the inability to obtain required environmental and other regulatory approval, environmental or operating permits and may also be materially affected by global economic conditions such as the price of gold, silver, copper, lead, zinc, the price of oil and other commodities utilized in the mine production. Unknown geologic or hydrologic conditions or other unknown factors may also materially affect converting resource estimates into reserves.

The Qualified Person who has reviewed and approved the above NI 43-101 Resource Calculation technical disclosure in this MD&A is Ralph Shearing, P. Geol, who is the Company's president and a director.

Please refer to the Company's web site at www.telsonresources.com for the full details of the Snowden PEA, the 2009 resource estimate report, and the Knight Piésold report.

Environment and Community

Telson conducts its exploration and development activities in a socially and environmentally progressive manner consistent with the principles of Sustainable Development. Particular emphasis is placed on establishing good relationships with community leaders and residents, as well as state authorities to ensure citizens are kept informed of the Company's exploration activities.

As the Tahuehueto project advances from exploration to development and pre-feasibility stage, environmental baseline studies will lay the foundation for more detailed programs examining all aspects of potential mine development to ensure the highest standards of environmental protection. The Company will continue to comply with all regulations and closely monitor its activities to minimize damage to the ecosystem.

Telson participates in a range of social initiatives in support of local communities, and has already helped to establish a local school and improve electrical, water supply and sanitation facilities. Telson established a medical clinic on the project site, which services the crew and is available to the local populace. Local hiring and procurement policies have been adopted to ensure that benefits flow to the communities and region surrounding the project.

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 make subsequent equal recurring yearly payments that will increase by a rate of 5% compounded annually.

Jocuxtitita Property, Mexico

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 Jocuxtitita, Sinaloa, Mexico. In July 2013 the Company decided to terminate the Jocuxtitita 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.

Work plan for 2016

In August 2015, the Company initiated an internal scoping study on the Tahuehueto property. The goal of this study was to identify and evaluate a more targeted, but smaller scale, underground mining operation. The results of the study have been evaluated by management in early 2016 and determined to proceed with the development of the Tahuehueto Project with the goal to start mining operations in 2017. Additionally, in June 2016, the Company engaged an independent geological consulting firm to prepare a NI 43-101 compliant Preliminary Feasibility Study ("PFS") targeting a 500 tonne/day underground mining operation, the PFS is expected to be completed by November or December of 2016.

As part of the PFS, the Company started underground development to collect a minimum 2,000 tonne bulk sample from the El Creston Zone in order to conduct an industrial scale production test of Tahuehueto mineralization to subsequently produce saleable lead and zinc concentrates. As at the date of this MD&A the bulk sample materials are being transported and processed at Andes Mill processing facility located near Guanacevi or about 120 km from the mine site; concentrates obtained from this process will be marketed and sold to interested concentrate buyers.

This industrial scale test will confirm metal recoveries, grinding parameters and concentrate quality to determine terms of concentrates sales and to verify costing and revenue estimates used within the PFS. The Company anticipates that the cost of collecting and processing the industrial scale bulk sample will be largely recovered by the income generated from the sale of the concentrates produced.

Overall plan analysis and economics

During the three and six months ended August 31, 2016 and 2015, the Company expended \$475,725 and \$626,098, respectively (August 31, 2015 – \$50,201 and \$66,830, respectively) in exploration and evaluation expenditures as detailed in the table below:

	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

1.3 Selected Annual Financial Information

Year ended	Non-current liabilities	Total assets	Total loss and Comprehensive loss	Loss per share
February 29, 2016	\$ 100,319	\$ 992,124	\$ (951,004)	\$ (0.02)
February 29, 2015	-	654,014	(697,039)	(0.01)
February 29, 2014	183,303	701,820	(1,382,818)	(0.04)

During the above periods, the Company did not declare or distribute cash dividends nor generate revenues from operations.

1.4 Results of Operations

Six months ended August 31, 2016 and 2015.

During the six months ended August 31, 2016, the Company reported a loss and comprehensive loss of \$1,869,210 compared to a loss and comprehensive loss of \$219,080, for the same period in the previous year.

Significant variances affecting the loss and comprehensive loss are discussed as follows:

1. During the six month ended August 31, 2016 the Company incurred exploration and evaluation expenditures in the amount of \$626,098 compared to a \$66,830 in the same period of the previous year. The increase of \$559,268 is attributable to the reactivation of the Tahuehueto project, since during the comparable period the Company was in care and maintenance. During the six month ended August 31, 2016 the company continued and its work to complete the Company's restructure, started the environmental and mine permitting process, secured a long-term land use agreement with the local community, completed a internal scoping study, engaged a third party to start a pre-feasibility study and initiated the mine development to collect the bulk sample being sampled at the Andes Mill processing facility located near Guanacevi, Durango State, Mexico.

2. During the six months ended August 31, 2016 the Company recorded general expenses of \$1,267,594, which represents an increase of \$1,117,075 over the same period in the prior year. The increase is mainly attributable to stock-based compensation recorded of \$631,594, which relates to stock options granted to directors, officers and employees of the company during the month of March 2016. During the comparable period the Company did not issue any stock options grant, therefore no stock-based compensation recorded.

General expenses, other than stock-based compensation, total \$636,000, which compared to \$150,519 during the same period in prior year increased by \$485,481. The increase is due to the reactivation of the Company, hiring additional employees that work on the completion of the Company's restructure, closing a non-brokered private placement, securing a line of credit and resume its business development and marketing activities.

3. Other expenses (income) were consistent period over period with the exception of interest and other income, since the Company during the six months ended August 31, 2015 recorded as other income an amount of \$42,381 as a result of forgiven interest payable.

Three months ended August 31, 2016 and 2015

During the three months ended August 31, 2016, the Company reported a loss and comprehensive loss of \$1,038,355 compared to \$141,776 recorded for the same period in the prior year.

Significant variances are discussed as follows:

1. The company recorded during the three months ended August 31, 2016 exploration and evaluation expenditures in the amount of \$475,725 compared to an amount of \$50,201 recorded in the same period of the previous year. The increase of \$425,524 is mainly due to expenditures related to the initiation of mine development focused in the collection of the 2,000 tonne in bulk sample, which at the date of this MD&A is being processed at the Andes Mill processing facility.
2. During the three months ended August 31, 2016, the Company incurred \$545,418 in general expenses, an increased of \$465,169 over the same period in the prior year. This increase is attributable to the overall increase in the activity of the Company and also securing a line of credit and resumed its business development and marketing activities. All of this reflects into higher consulting fees, wages and benefits that also include a \$21,500 severance payment to an ex-officer of the Company.

The Company also included as general expenses an amount of \$202,074 for the three months ended August 31, 2016 as share-based compensation in relation the 6,950,000 incentive stock options granted on March 22, 2016. During the comparable period the Company did not record share-based compensation.

3. During the three months ended August 31, 2016, the Company recorded \$19,229 as other expenses; this amount mainly relates to \$23,831 interest expense recorded in connection to the MXN\$25,000,000 Mexican peso line of credit.

1.5 Summary of Quarterly Results:

Three months ended	Working capital	Total assets	Total loss and Comprehensive loss	Loss per share
	\$	\$	\$	\$
August 31, 2016	1,142,793	2,886,299	(1,869,210)	(0.02)
May 31, 2016	363,278	1,755,372	(830,855)	(0.01)
February 29, 2016	(655,380)	992,124	(381,745)	(0.01)
November 30, 2015	(400,230)	1,321,853	(350,179)	(0.01)
August 31, 2015	(1,625,656)	1,222,140,	(141,776)	(0.00)
May 31, 2015	(2,407,612)	654,248	(77,304)	(0.00)
February 28, 2015	(2,398,012)	654,014	(140,039)	(0.00)
November 30, 2014	(2,080,259)	656,944	(126,590)	(0.00)

The Q4 2015 period loss increased over the previous Q3 period because of the Mexican mineral property concession taxes and higher foreign exchange charges, partially offset by \$58,434 of an account receivable that has been written-off several years ago; and also sold some surplus equipment for \$18,134.

The Q1 2016 period loss decreased over the previous Q4 2015 period largely because of the semi-annual mineral Mexican mineral property concession taxes charged in the Q4 2015 period. There were no similar charges in the Q1 2016 period. Also management continued to cut costs wherever possible.

The Q2 2016 period loss increased over the Q1 2016 period as the level of business activity increased and exploration expenses relating to a scoping study on the Tahuehueto Project.

The Q3 2016 loss increased generally as a result of an overall increase in business activities. This includes increases in explorations costs primarily associated with the preparation of the internal scoping study, maintenance work on the mineral property, property taxes, and surface access rights. In connection with the corporate reorganization and the Company's AGM held in November 2015 there were increases in professional fees, regulatory fees, transfer agent fees, and travel.

The Q4 2016 loss increased as a result of increases in explorations costs, personnel costs, professional fees, and travel expenses. These increases were partially offset by lower office, loan interest and foreign exchange expenses. Overall, excluding exploration expenses, the Q4 2016 expenses increased 3% compared to the Q4 2015 period.

The Q1 2017 loss increased mainly relates to share-based compensation recorded as a result of the amortization of options granted on March 22, 2016.

The Q2 2017 loss increased in connection to higher exploration and evaluation expenses related to the initiation of the development of the mine and the collection of the 2,000 tonne bulk sample produced and shipped to the milling facility about 120km away for the mine site. The company also incurred in higher general expenses mainly due to stock-based compensation recorded and other expenses related to the increase in the Company's overall activities. The total assets and working capital increase mainly in connection to the increase in cash as a result of the Company drawing down on its recently acquire line of credit in the amount of MXN\$25,000,000 Mexican pesos or approximately \$1,740,499.

1.6/1.7 Liquidity, capital resources and going concern

As of August 31, 2016, the Company had cash balance of \$1,905,008 and working capital of \$1,142,793. Current liabilities as of August 31, 2016 consisted of accounts payable and accrued liabilities are in the amount of \$738,007 and an obligation under the share purchase agreement in the amount of \$262,340, which have been incurred in connection to the operation of the Company and maintaining the Company's public listing in good standing.

During the three and six months ended August 31, 2016, the Company expended net cash of \$658,385 and \$1,289,280, respectively in operating activities compared to \$288,693 and \$348,205, respectively in the same period of the previous year. The increase is mainly due to the overall increase in the activity of the company, which translates into additional exploration expenditures included in the loss and comprehensive loss for the period.

The Company also expended \$140,418 and \$143,077 in investing activities during the three and six months ended August 31, 2016 respectively. The increase predominantly relates to mining equipment acquired for the initiation of the development of the mine.

During the three and six months ended August 31, 2016, the company raised a net amount equivalent to \$1,740,499 and \$3,124,128 respectively, in financing activities through the draw down of MXN\$25,000,000 Mexican peso or approximately \$1,740,499 of the recently obtained line of credit and the issuance of common shares.

The Company's current working capital is sufficient for the Company to meets its immediate liquidity requirements as well as those for the next twelve months.

Common shares issued

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-share purchase warrant. Each whole share 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 include legal and regulatory costs.

Other sources of funds

As at August 31, 2016, the other sources of funds potentially available to the Company are through the exercise of outstanding stock options and share purchase warrants with terms as follows:

Stock options:

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	6,950,000	\$ 0.13	4.56	2,316,667	\$ 0.13	4.56

Share purchase warrants:

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

In the future, the Company may have capital requirements in excess of its currently available resources and may be required to seek additional financing. There can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

As at August 31, 2016, the Company had not yet achieved profitable operations, had a cash balance \$1,905,008 and working capital of \$1,142,793, and may incur further losses in the development of its business. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As a result the Company may be unable 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 development of its mineral property, its ability to operate profitably and the Company's ability to obtain the necessary financing through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company's ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

1.8 Off-balance sheet arrangements

The Company does not utilize off-balance sheet arrangements.

1.9 Transactions between related parties

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.

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 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).

1.10 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.

1.11 Proposed transaction

None

1.12 Critical accounting estimates

This section is not required as the Company is a Venture Issuer, as the term is defined in National Instrument 51-102 Continuous Disclosure Obligations.

1.13 Changes in accounting policies including initial adoption

None

1.14 Financial instruments and other instruments

As at August 31, 2016, the Company's financial instruments consist of cash, amounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term to maturity. The fair value of the long-term debt has been determined based on Level 1 of the fair value hierarchy and approximates their carrying values as the cost of the long-term debt is consistent with market rates. The Company's financial instruments are exposed to certain financial risks including, credit risk, liquidity risk, foreign currency risks, interest rate risk, commodity and equity price risk and capital risk management. Details of each risk are laid out in the notes to the Company's condensed interim consolidated financial statements.

1.15 Other requirements

Outstanding share data

Authorized: Unlimited number of common shares

Number of common shares issued and outstanding as at October 31, 2016: 92,900,995

Number of common shares issued and outstanding as at August 31, 2016: 92,885,578

Stock options as at October 31, 2016:

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	6,950,000	\$ 0.13	4.39	4,633,333	\$ 0.13	4.39

Share purchase warrants as at October 31, 2016:

Number of warrants	Exercise price	Expiry date
16,520,000	\$ 0.05	November 17, 2017
3,480,000	0.05	December 9, 2017
6,168,250	0.12	April 26, 2018

Disclosure Controls and Procedures

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim consolidated financial statements for the three and six months ended August 31, 2016 and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company on SEDAR at www.sedar.com.