



## TELSON RESORUCES INC.

### **Management's Discussion and Analysis**

For the Ten Months Ended December 31, 2016

Report Dated April 28, 2017

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#### **1.1 Date and forward-looking statements**

The Company has prepared the following Management's Discussion and Analysis ("MD&A") as of April 28, 2017 and it should be read in conjunction with the Telson Resources Inc., (the "Company" or "Telson") audited consolidated financial statements and notes thereto for the ten months ended December 31, 2016. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and all dollar amounts presented are Canadian dollars unless otherwise stated.

The effective date of this MD&A is April 28, 2017.

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 Resources Inc., ("Telson" or the "Company") 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](http://www.sedar.com) and/or the Company's web site at [www.telsonresources.com](http://www.telsonresources.com).

### **1.2.2 Resource Properties**

#### **Tahuehueto Project, Mexico**

##### Project Description and Location

The Tahuehueto property consists of 28 mining concessions that total 7,492 hectares located in the northwest portion of the state of Durango Mexico, about 250 km northwest of Durango, the state capital, and 160 km northeast of the city of Culiacan, Sinaloa. The Project is located about 25 km north of the Topia polymetallic-silver mine, 40 km northwest of the La Cienega gold, silver, base metal mine, 85 km southwest of the Guanacevi silver district, 280 km southeast of the Palmarejo silver and gold mine, and 150 km northwest of the San Dimas mining district, most notable for the Tayoltita silver and gold mine.

##### Ownership

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. 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.

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 Compliant Pre-Feasibility Study

In January 2017, Telson announced the results of a NI 43–101 compliant Prefeasibility Study (the “PFS”) for its Tahuehueto Project.

The PFS was been prepared by Metal Mining Consultants Inc. based in Highlands Ranch, Colorado. Metal Mining Consultants is a full-service independent mining engineering firm, specializing in all aspects of exploration, mine development, and mine operations. The PFS was authored by Scott E. Wilson of MMC along with contributions from other industry experts. This PEA has been prepared in compliance with Form 43-101F1 (Technical Report) and Companion Policy 43-101CP. The effective date of the report is November 18, 2016.

The following summarizes the PFS.

The Tahuehueto Project (“Tahuehueto” or the “Project”) is an advanced exploration stage polymetallic project. The mineralization consists of epithermal Au-Ag veins and brecciated structures with lead, zinc and copper, and is located in the Durango State within the prolific Sierra Madre Mineral Belt which hosts a series of historic and producing mines and most of México’s active exploration and development projects.

From 1996 to present day, Telson and Real de la Bufa, S.A. de C.V., a Mexican subsidiary of Telson, have conducted surface and underground sampling and mapping, drilled 248 holes totaling 47,276 m into several mineralized bodies, and conducted metallurgical testing, as well as geophysics and other geological studies. The Project consists of 28 mining concessions that total 7,492.7889 ha.

The Project configuration evaluated in the PFS is an owner-operated 790 tpd underground mine that will utilize overhand cut and fill mining with conventional mining equipment in a blast/load/haul operation. Mill feed will be processed in a 550 tpd comminution circuit consisting of primary and secondary crushing, grinding in a single ball mill followed by three floatation circuits producing lead, copper, and zinc concentrates. The concentrates will be trucked from site for smelting and refining.

The highlights of this Pre-Feasibility Study report include:

- Post-tax Net Present Value (“NPV”), using an 8% discount, of US\$77M, with an internal rate of return (“IRR”) of 36% and a payback period of three years.
- Pre-tax NPV, using an 8% discount, of 138M with an IRR of 56%.
- Financial Analysis completed on base case metal price forecasts of US\$0.87/lb for lead, US\$0.92/lb for zinc, US\$2.65/lb for copper, US\$1,180/oz for gold and US\$16.70/oz for silver.
- Metal Prices lower than 3-year averages.
- Average annual earnings before interest, taxes, depreciation, and amortization (“EBITDA”) of US\$16.7M per year and US\$352M over the life of the Project.
- Probable Mineral Reserves of 3.3 million tonnes, grading 3.4 g/t gold, 41.8 g/t silver, 0.31% copper, 1.1% lead and 2.0% zinc.
- 21-year mine life with average annual production of 16,100 oz of gold, 177,100 oz of silver, 900 k-lbs of copper, 3,200 k-lbs of lead and 5,600 k-lbs of zinc.
- Pre-production capital costs of US\$32.2M including US\$17.2M surface site development including mill construction and US\$14.9M of mining equipment and preliminary underground development.

#### Mineralization

Mineralization at Tahuehueto occurs as polymetallic epithermal veins with multiple mineralizing events overprinted on one another in the same vein structure. The primary host rock is andesite of the lower volcanic series, but in at least one case, the hydrothermal system penetrated felsic ignimbrite of the upper volcanic series. Breccias are an

integral part of the Tahuehueto hydrothermal system and display several genetic styles. Many of the sulfide-mineralized zones display sulfide transport textures.

Overprinting of the lower-temperature, higher-level mineral assemblage onto the higher temperature, deeper-level mineral assemblage is referred to as telescoping. This telescoping may represent the progressive cooling of the hydrothermal system, although in some instances tectonic un-roofing of the cover rocks may also result in a decrease in overburden and progressive deposition of higher crustal level, lower temperature mineral assemblages. Increasing gold and silver grades in the later higher crustal level assemblages without significant base metals is an important element of this telescoping.

The uppermost portions of the mineralized structures are oxidized. In the oxide zone, mineralization consists of malachite, azurite, chalcocite, covellite, limonite, and hematite. Malachite overprints tetrahedrite, and chalcocite and covellite form coatings on sphalerite. The depth of the oxide-sulfide interface varies considerably, but is generally less than 100 m.

Sulfide mineralization lies below the oxidized zone and consists of sphalerite, galena, chalcopyrite, tennantite, tetrahedrite, and probably electrum. Gangue minerals are quartz, pyrite, chlorite, sericite, and calcite. Locally a light green phyllosilicate mineral interpreted to be celadonite forms as gangue and is closely associated with high-grade gold and silver mineralization.

### 2016 Mineral Resource Estimate

The mineral resource has been limited to mineralized material that occurs within the mineralized blocks and which could be scheduled to be processed based on the defined cut-off grade. All other material was reported as non-mineralized material.

Table 1.1 below, lists the current Mineral Resource estimate for the Project at cut-off grade of 2.5 g/t of gold equivalent (AuEq).

Table 1 Tahuehueto Project Measured, Indicated, and Inferred Mineral Resource Estimate

<b>Classification</b>	<b>kTonnes</b>	<b>Au Grade (gpt)</b>	<b>Cont Au kOz</b>	<b>Ag Grade (gpt)</b>	<b>Cont Ag kOz</b>	<b>Cu Grade (%)</b>	<b>Cont Cu klbs</b>	<b>Pb Grade (%)</b>	<b>Cont Pb klbs</b>	<b>Zn Grade (%)</b>	<b>Cont Zn klbs</b>
Total Measured	2,771	2.77	247	44.70	3,982	0.31	18,914	1.27	77,827	2.29	139,821
Total Indicated	3,343	2.23	240	41.26	4,435	0.30	22,466	1.15	84,455	2.04	155,687
<b>Total Measured and Indicated</b>	<b>6,114</b>	<b>2.48</b>	<b>487</b>	<b>42.82</b>	<b>8,417</b>	<b>0.31</b>	<b>41,380</b>	<b>1.20</b>	<b>162,282</b>	<b>2.15</b>	<b>295,508</b>
Total Inferred	3,501	1.31	147	37.59	4,230	0.27	20,469	1.34	103,080	2.44	188,409

### Mining Engineering

Mineralization at Tahuehueto occurs in different veins under a local mountainous landform. The near vertical dip of the veins and apparent rock mass quality, as demonstrated by the excavations formed by the previous mining and recent underground development in late 2016, makes the veins suitable for different sublevel mining methods. No trade-off studies have been performed and the Telson Management had based previous mining studies on the Overhand Cut-and-Fill mining method, which in the Author's opinion was suitable for the purposes of this PFS study.

The mining method used as the basis of this PFS design was, therefore, Overhand–Cut and–Fill mining with conventional drilling, blasting, mucking and hauling, scaling and ground support installation and backfilling with unconsolidated, mined waste materials. Full mechanization was assumed using diesel, rubber tired mining equipment and support vehicles. A summary of Project operating metrics are presented in Table 1.2.

Table 2 Tahuehueto Project Operating Metrics

Operating Metrics	Units	Value
Mill Throughput	t/year	155,000
Mine Life	Years	21
Pre-Production/Development Period	Years	2
Ore Mining Rate	t/year	155,000
Development Rate	t/year	77,000
Total Mining Rate	t/year	232,000
Development Tonnes to Ore Tonnes Ratio*	w/o	0.5

\* waste: ore ratio

The mine design and Mineral Reserve estimate have been completed to a level appropriate for pre-feasibility studies. The Mineral Reserve estimate stated herein is consistent with the CIM Standards on Mineral Resources and Mineral Reserves and is suitable for public reporting. As such, the Mineral Reserves are based on Measured and Indicated Resources, and do not include any Inferred Resources.

A mine design was created in the Maptek Vulcan™ model to define access and mining of the stope shapes defined by the Stope Optimizer module within Vulcan™ software. The defined stope shapes and development excavations were scheduled to produce a basis for economic analysis. The resulting reserve is classified as Probable, and is listed in Table 1.3. No Proven Reserves were defined due to the limited definition resource drilling, limited definition by exploratory mining and the lack of geotechnical data that addresses underground mining.

Table 3 Tahuehueto Reserve Estimate Summary from Scheduled Stopes

Classification	kTonnes	Au Grade (gpt)	Cont Au kOz	Ag Grade (gpt)	Cont Ag kOz	Cu Grade (%)	Cont Cu klbs	Pb Grade (%)	Cont Pb klbs	Zn Grade (%)	Cont Zn klbs
Probable Reserves	3,264	3.40	356	41.80	4,387	0.35	25,028	1.19	85,762	2.24	161,314

1. Canadian Institute of Mining, Metallurgy and Petroleum standards were followed in the estimation of the Mineral Reserves.
1. Mineral Reserves are estimated using metal price forecasts of US\$0.60/lb for lead, US\$0.75/lb for zinc, US\$2.10/lb for copper, US\$1,000/oz for gold and US\$19.12/oz for silver.
2. Totals may not add due to rounding.
3. The foregoing mineral reserves are based upon and are included within the current mineral resource estimate for the Project.

### Mineral Processing

Based on metallurgical tests performed to date, the previous metallurgical campaigns provide sufficient data to reach a level of confidence that the flotation process chosen will work, flotation targets are attainable, and an economical concentrate can be produced. The proposed processing plant is a conventional crushing/milling/flotation/filtering process designed to process 165,000 tonnes per year in 300 operating days, equivalent to 550 tonnes per day through the grinding and flotation circuits producing lead, copper, and zinc concentrates. Concentrate recoveries are shown in Table 1.4 and life of mine metal production is shown in Table 1.5.

Table 4 Tahuehueto Average Metallurgical Recoveries

Product	kTonnes	Distribution % (Recoveries)				
		Au	Ag	Cu	Pb	Zn
Head	3,264	100%	100%	100%	100%	100%
Pb Concentrate	58	77.1%	62.8%	31.6%	85.5%	1.6%
Cu Concentrate	18	6.8%	10.3%	51.4%	0.6%	17.1%
Zn Concentrate	108	11.0%	11.7%	11.5%	6.1%	80.0%
Tails	3,096	5.4%	15.2%	5.4%	7.8%	1.3%

Table 5 Life of Mine Metal Production

LOM Metal Production	Units	Value
Gold	koz	340
Silver	koz	3,720
Lead	klbs	73,100
Copper	klbs	20,800
Zinc	klbs	128,700

### Capital and Operating Cost Estimate

Capital and operating costs used for the Tahuehueto Project were developed from cost build up from first principles engineering along with vendor and contractor quotations. In addition, all available project technical data and metallurgical test work were considered to build up a processing operating cost estimate.

A project configuration which included the underground mines and a central process facility was developed as the basis for capital cost estimation. Preliminary site infrastructure alternatives (process plant, tails storage facility, and power) were examined as a basis to estimate costs. Generalized arrangements were evaluated to establish a physical basis for the capital costs estimates. Cost accuracy is estimated to be + or - 20%. The estimated capital costs are listed in Table 1.6 and operating costs are listed in Table 1.7.

Table 6 Tahuehueto Total Capital Costs

Capital Category	Initial (US\$M)	Sustaining (US\$M)	Total (US\$M)
Mine Mobile Equipment	8.8	4.4	13.2
Mine Fixed Equipment	1.1	0.3	1.4
Mine Development	5.1	0.7	5.8
Processing	16.1	-	16.1
Infrastructure	1.1	-	1.1
<b>Total CAPEX</b>	<b>32.2</b>	<b>5.4</b>	<b>37.6</b>

Table 7 Tahuehueto Unit Operating Costs

Operating Costs	LOM Cost US\$M	Unit Cost US\$/t mineralized
Mining	69.4	21.62
Processing	100.5	30.80
G&A	22.2	6.82
<b>Total OPEX</b>	<b>192.2</b>	<b>59.24</b>
Smelter	78.0	23.91
Freight & Marketing	15.7	4.80
Royalties	9.5	2.91
<b>Total Operating Cash Cost</b>	<b>295.4</b>	<b>90.86</b>

## Conclusions

The work completed by Telson has resulted in sufficient drill sample density, and confidence in the geological interpretation, for MMC to reasonably estimate Mineral Resources and Mineral Reserves for Tahuehueto.

The economic performance of the Tahuehueto Project was evaluated with a cash flow based economic model using project costs and revenues as the financial basis. The revenue factors for the project are dependent on metal prices calculating into the net smelter return. Costs are in constant 2016 US\$, no escalation of cost has been assumed. Operating costs are generated based on production physicals (tonnes) and unit rates. The Tahuehueto project is expected to yield an after-tax undiscounted LOM net cash flow of US\$209.7 million, and an NPV of US\$77.8 million at a discount rate of 8% per year. The results for the Tahuehueto Project economic analysis are summarized in Table 1.8.

Table 8 Tahuehueto Project Economic Results

<b>Economic Metrics</b>	<b>Units</b>	<b>LOM Value</b>
Total Ore Processed	kTonnes	3,264
Contained Gold Produced	kOz	340
Contained Silver Produced	kOz	3,720
Contained Lead Produced	kLb	73,100
Contained Copper Produced	kLb	20,800
Contained Zinc Produced	kLb	128,700
Gold Price	\$/oz	1,180
Silver Price	\$/oz	16.70
Copper Price	\$/lb	2.65
Lead Price	\$/lb	0.87
Zinc Price	\$/lb	0.92
Gross Revenue	US\$M	590.8
Refining and Freight Costs	US\$M	91.3
Royalty (1.6%)	US\$M	9.5
Operating Costs	US\$M	192.2
Capital Costs	US\$M	37.6
Pre-Tax Cash Flow	US\$M	351.5
Special Mining Tax (7.5%)	US\$M	36.6
Special Mining Royalty (0.5%)	US\$M	2.2
Income Tax (30%)	US\$M	104.8
Post-Tax Cash Flow	US\$M	207.9
Pre-tax NPV (8%)	\$M	137.8
Pre-tax IRR	%	56%
Post-tax NPV (8%)	\$M	77.0
Post-tax IRR	%	36%

The complete PFS is available through the Internet under the Company's profile on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.telsonresources.com](http://www.telsonresources.com).

## Qualified Person

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.

### 3,500 Tonne Industrial Scale Bulk Sample Collection and Processing

On February 23, 2017, the Company announced that it has finalized the sale of lead and zinc concentrates produced from its industrial scale bulk sample collected from the El Creston zone during late 2016 and 2017, on its 100% owned Tahuehueto Project.

Approximately 3,500 tonnes of ore was collected from new underground development on Level 10 on the El Creston Zone at the Tahuehueto Project. The bulk sample was then transported in conventional dump trucks to the Andes Processing Plant located at Guanacevi, Durango, México, approximately 270 km by road from the project site. Processing of the bulk sample occurred between late November 2016 through early January 2017.

The collection and processing of this industrial test has provided proof of concept that the selective mining method utilized in the bulk sample collection and to be employed at Tahuehueto in future mining operations resulted in industry-standard mining costs and metal recovery processes utilized at the sulfide flotation toll mill were very successful in producing 201 tonnes of lead concentrate and 259 tonnes zinc concentrates which were marketed and sold generating cash receipts of about US\$1,470,000.

Mercuria Commodities Trading S.A, de C.V. ("Mercuria") purchased all 259 tonnes of zinc concentrate as well as 97 tonnes of lead concentrate with the remaining 104 tonnes of lead concentrate being purchased by Altiplano Processing Facility located in Matehuala, Mexico.

The total bulk sample was determined to have an average head grade of 9.5 g/t gold, 63.9 g/t silver, 3.54% lead and 6.24% zinc.

#### Sulfide flotation processing produced

- 201 dry tonnes of lead concentrate with average grades of 124.4 g/t gold, 786.4 g/t silver, 40.7% lead and 24.7% zinc.
- 259 dry tonnes of zinc concentrate with average grades of 11.18g/t gold, 147.07g/t silver, 5.55% lead and 43.57% zinc

The sale price of the concentrate was determined through negotiation by comparing the assay results obtained on behalf of the Company at the Andes Mill processing site laboratory, the concentrate purchaser's internal assays laboratories and the independent umpire assayer, Ersa Global Mex S.A. de C.V. ("Ersa").

#### Purchase of Sulfide Flotation Processing Facility

On February 2017, the Company announced that it completed an agreement for the acquisition of a sulfide flotation mineral processing facility, (the "Processing Plant Agreement"). Pursuant to the terms of the Processing Plant Agreement Telson paid in consideration an amount of \$1,300,000.

The mineral processing plant acquired consists of most of the milling equipment required, once installed and operational, to process Tahuehueto ore at an estimated capacity of up to 1,000 tonnes per day.

Telson started reallocating the processing plant equipment to a staging area in the town of Tepehuanes, which is close to the Tahuehueto Project site. At this location, all equipment is being fully inspected and refurbished where necessary over the next several months. During this time site preparation and engineering work at Tahuehueto will continue to prepare the site to receive the mineral processing plant.

All equipment purchased and comprising the Tahuehueto mineral processing plant was inspected by an independent mining contractor firm based in Durango, Mexico. Equipment purchased is estimated to make up approximately 80% of the total milling equipment required to construct a fully functioning mill facility. Any equipment lacking is currently being sourced and will be added required.

#### On Site Underground Development and Surface Work

The Company initiated underground development work in November 2016, advancing the Haulage Level Portal (1,350 m elevation), 180 meters crossing the El Creston structure. This Haulage Level Portal was drifted on a 5m X 5m basis and will be used to transport the bulk of the ore to be mined within the El Creston and Perdido zones from underground to the mill site.

The company is currently collecting a second industrial scale bulk sample from the El Creston zone within the haulage level portal. Once collected, this bulk sample will be shipped approximately 270 km to the same toll mill as the first 3,500 tonne bulk sample was shipped, located in Guanacevi, Durango, México. There it will be processed to recover lead and zinc concentrates which will be marketed and sold to concentrate purchasers.

Following the second bulk sample, the Company is planning to collect and process a third bulk sample from the Cinco de Mayo zone at a lower elevation within the deposit to test the recoveries of mineralization at these elevations within ore reserves.

Surveying and engineering work for the layout of the foundation of the mineral processing plant is underway and the company plans to commence construction of the mill site and continue underground development work upon securing adequate funding to prepare project for commercial production targeted for early 2018.

### **1.2.3 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.

The Company has environmental permits in place to allow construction of its mineral processing facility and mine development and has filed two other environmental permits, one which will allow commencement of mining operations using existing impacted areas from previous mining operations with another permit recently filed to allow mine expansion within a new tailings disposal facility with life of mine capacity. 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 renewed and extended a temporary land use agreement (the "Agreement") with the Comunidad La Bufa ("Comunidad"), holders of certain surface rights at Tahuehueto. The renewed Agreement allows the Company to explore, develop and produce minerals within an area of 2,062 ha over a period of 30 years beginning on the date of the Agreement and may be extended upon request by the Company. This 30-year Agreement is obligatory to Comunidad, not for the Company. The Company will pay to Comunidad a fee of US\$46,540 or the equivalent amount in Mexican Pesos for each 365- day period as compensation for the temporary land use for mining exploration and exploitation. Payments will be due yearly on the anniversary date of the Agreement and will be subject to annual increase of 5% on the value of the preceding year's payment.

## 1.2.4 Overall plan analysis and economics

During the ten months ended December 31, 2016, the Company expended \$475,725, in exploration and evaluation expenditures as detailed in the table below:

	<b>Ten months ended December 31, 2016</b>
<b>Exploration and Evaluation Expenditures:</b>	
Assaying, data and maps	\$ 22,257
Camp cost, equipment and field supplies	204,462
Advancement of project	319,014
Fuel and consumables	102,501
Project general and office expenses	71,306
Geological consulting services	377,078
Permitting, environmental and community costs	179,806
Salaries and wages	284,177
Travel and accommodation	381,622
Accretion of provision for site reclamation and closure	7,259
Depreciation	18,660
Recovery of expenses	(46,547)
	<b>\$ 1,921,595</b>

## 1.3 Selected Annual Financial Information

<b>Year ended</b>	<b>Non-current liabilities</b>	<b>Total assets</b>	<b>Total loss and Comprehensive loss</b>	<b>Loss per share</b>
December 31, 2016	\$ 4,325,534	\$ 3,734,098	\$ 3,769,638	\$ (0.04)
February 29, 2016	100,319	992,124	951,004	(0.02)
February 29, 2015	-	654,014	697,039	(0.01)

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

## 1.4 Results of Operations

### Ten months ended December 31, 2016 and year ended February 29, 2016.

The following section of this MD&A reviews and discusses the Company's consolidated statement of loss and comprehensive loss for the ten months ended December 31, 2016, as compared to the year ended February 29, 2016. Management has determined that comparing the current period to the previous year end is a more effective metric than in using a historic twelve-month period due to the recent growth and expansion of the Company's operations.

During the ten months ended December 31, 2016, the Company reported a loss and comprehensive loss of \$3,769,638 and loss per share of \$0.04, compared to \$951,004 and \$0.02, respectively for year ended February 29, 2016.

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

1. During the ten months ended December 31, 2016, the Company incurred exploration and evaluation expenditures in the amount of \$1,921,595 compared to \$463,536 over the comparative period. The increase of \$1,458,059 is attributable to the reactivation of the Tahuehueto project, since during the comparable period the Company was in care and maintenance. During the ten months ended December 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 an internal scoping study, engaged a third party to start a pre-feasibility study, initiated the mine development and collected a 3,500 tonne industrial bulk sample which was subsequently sold to third parties. During the ten months ended December 31, 2016, the Company sold US\$192,000 of concentrates as a result of processing the bulk sample; this incidental revenue was applied as a reduction to exploration and evaluation expenditures.
2. During the ten months ended December 31, 2016, the Company recorded general expenses of \$1,831,710, which represents an increase of \$1,356,553 over the comparative period. The increase is mainly attributable to stock-based compensation recorded of \$754,912, 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 was recorded.

General expenses, other than stock-based compensation total \$1,076,798, (\$475,157 – year ended February 29, 2016). The increase of \$601,641 is mainly comprise of: 1) An increase of \$420,284 in consulting fees, wages and benefits in connection to the completion of the internal scoping study, the preparation of the PFS and additional employees hired during the period. 2) An increase of \$94,420 in office, rent, and administration which resulted for having an office in Mexico City and Durango. 3) An increase of \$67,759 in travel promotion and investor relations which is the result of hiring investor relations services from a third party and investor shows and conferences attended.

3. Other income and expenses were consistent period over period on a net basis however, the Company recorded during the ten months ended December 31, 2016, an amount of \$42,381 as gain in the settlement of debt. The Company also incurred in \$137,623 of financing costs in connection to amounts drew down from its line of credit and recorded a gain in foreign exchange produced by additional activity in trading other currencies for paying suppliers and having a line of credit denominated in Mexican pesos.

### 1.5 Summary of Quarterly Results:

Three months ended	Working capital	Total assets	Total loss and Comprehensive loss	Loss per share
	\$	\$	\$	\$
December 31, 2016 <sup>(1)</sup>	1,822,993	3,734,098	(1,069,573)	(0.01)
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)

- (1) This represents figures for 4 months ended December 31, 2016 as the Company changed its fiscal year-end from February 28 to December 31. Accordingly, the last quarter was a four-month period.

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

The Q2 Aug 2015 period loss decreased over the Q1 May 2015 period as the level of business activity decreased and exploration expenses relating to a scoping study on the Tahuehueto Project.

The Q3 Nov 2015 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 Feb 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 Feb 2016 expenses increased 45% compared to the Q4 Feb 2015 period.

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

The Q2 Aug 2016 loss increased in connection to higher exploration and evaluation expenses related to the advancement of the mine and the collection of the 3,500 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 or approximately \$1,740,000.

The Q4 Dec 2016 loss of the period dropped in comparison with prior quarter but it is consistent with Q1 May 2016 on a pro-rated basis. During the period the Company continued with the advancement of the mine, increased the bulk sample from 2,000 tonne to 3,500 tonne. During this period, the Company also received income from the sale of concentrate which was recorded against development and exploration expenditures and drew down for the second time from its line of credit in the amount of MXN\$40 million.

### **1.6/1.7 Liquidity, capital resources**

As of December 31, 2016, the Company had cash balance of \$2,489,614 and working capital of \$1,822,993. Current liabilities as of December 31, 2016 consisted of accounts payable and accrued liabilities in the amount of \$738,551, share purchase obligation in the amount of \$268,540, and the current portion of the long-term debt for \$218,231 which have been incurred in connection with the operations and advancement of the project and maintaining the Company's public listing in good standing.

During the ten months ended December 31, 2016, the Company expended net cash of \$3,034,030 compared to \$1,499,569 during the comparative period in the previous year. The increase is mainly due to the overall increase in the activity of the company and the Tahuehueto project.

The Company also expended \$182,870 and \$29,029 in investing activities during the ten months ended December 31, 2016 and year ended February 29, 2016, respectively. The increase predominantly relates to mining equipment acquired for the initiation of the development of the mine.

During the ten months ended December 31, 2016, the Company raised a net amount equivalent to \$5,616,974, in financing activities through the draw down of MXN\$45,000,000 or approximately \$4,231,495 of the recently obtained line of credit and the issuance of common shares, compared to \$1,783,186 during the comparative period in the previous year.

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.

## 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 a few of the mining concessions.

## Common shares issued

On October 17, 2016, the Company issued 15,417 common shares for gross proceeds of \$1,850 in connection with warrants being exercised.

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.

On June 14, 2015, the Company completed a non-brokered private placement of 40,000,000 Units of the Company. Each Unit was priced at \$0.05 per unit for total gross proceeds of \$2,000,000. Each unit was comprised of one common share of the Company and one half of a transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.05 within two years of its date of issuance.

Related to this share issuance the Company incurred costs in the amount of \$223,548 which included a cash payment for finder's fee in the amount of \$60,000 and other legal and regulatory costs. The Company also issued 1,800,000 common shares valued at \$90,000 for finder's fee.

On June 2015, the Company issued 13,870,000 common shares at a price of \$0.05 per share to settle debts in the amount of \$693,500.

## Other sources of funds

As at December 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	4.22	4,633,333	\$ 0.13	4.22

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
6,168,250	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.

### 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 ten months ended December 31, 2016 and year ended February 29, 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:

	Ten months ended December 31, 2016	Year ended February 29, 2016
Compensation to key management personnel	\$ 327,397	\$ 163,875
Share-based compensation	513,232	-
Exploration and evaluation expenditures	-	70,061
Fees recorded under office, rent and administration	8,553	-
Interest on loans	-	32,389
	\$ 849,182	\$ 266,325

As at December 31, 2016, directors and officers or their related companies were owed \$99,054 (February 29, 2016 – \$299,317) included in accounts payable and accrued liabilities 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.

As at December 31, 2016, directors and officers or their related companies owed the Company \$6,456 (February 29, 2016 – \$nil) included in prepaid expenses and deposits.

During the ten months ended December 31, 2016, the Company repaid advances in the amount of \$34,000 (February 29, 2016 – \$493,500) provided by directors of the Company which were included in current liabilities as advances.

During the ten months ended December 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 resulting in a gain on settlement of debt in the amount of \$42,381 (February 29, 2016 – \$ nil).

## 1.10 Subsequent events

- a) On April 27, 2017, the Company announced it has entered into a definitive Share Purchase Agreement (the "Agreement") with Nyrstar Mining Ltd. and Nyrstar Mexico Resources Corp. (collectively "Nyrstar") to purchase all of 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 Agreement, the Company has agreed to pay total purchase price of US\$20 million plus any Variable Purchase Price, as described below, to Nyrstar under the following schedule:

- US \$800,000 at signing of the Agreement;
- US \$2.7 million on or before June 12, 2017;
- US \$16.5 million on the one year anniversary following the closing date of the transaction.

Nyrstar shall also retain the right to receive a Variable Purchase Price on future zinc production on the first 10 million tons 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 of (1) or (2) below:

1. US\$20 per tonne of zinc sold if the zinc price received is over US\$2,100 per tonne; or
2. a percentage of the Net Smelter Revenue received from zinc from the Campo Morado Mine based certain criteria.

Telson maintains the right under the Agreement to purchase 100% of the Variable Purchase Price at any time for US \$4 million.

Nyrstar shall also have a right of first refusal, on the same commercial terms and conditions offered by an arm's length third party to enter into an offtake agreement (the "Offtake Agreement") for the purchase of zinc concentrates. The closing of the Agreement is subject to TSX Venture Exchange ("TSXV") approval.

In order to fund the initial closing payments under the Agreement, the Company arranged two financings from two corporate entities, each controlled by Estrategica Corporativa en Finanzas, a related party of the Company. The related party is a significant shareholder with a control position in the Company, for which the Company previously received shareholder consent in late 2015, in accordance with TSXV policy.

The initial funding was structured as a convertible debt in the face amount of \$1,069,120 (US\$800,000), convertible into common shares at a price of \$0.31 per common share, at any time before the maturity date of the debt which was set at three years from the date of closing. The debt was to bear interest at a rate of 8% per annum (simple interest), with no interest accruing during the 3-month period commencing from the Closing Date. These funds were deposited in trust to be held and used to either: i) pay the initial payment to Nyrstar on signing the Agreement; or ii) be returned to the investor with no penalty to the Company in the event the parties were unable to complete the Agreement. The funds have now been paid to Nyrstar and consequently the investor has agreed to convert the loan into an equity private placement based on the original conversion terms of the convertible loan. Accordingly, the Company will, subject to TSXV acceptance, issue the investor 3,448,774 common shares in the capital of the Company.

The second portion of the private placement financing will consist of US\$2,700,000 consisting of shares only, at \$0.55 per common share.

All securities issued under the private placements will be subject to a four month hold period under applicable securities laws.

- b) On January 2017, the Company released its pre-feasibility study which demonstrates economically recoverable reserves. Further Management analysis concluded the project viability and subsequent to year end, the Board of Directors approved Management's recommendation to advance the project into development with the purpose to start commercial production as soon as possible.
- c) On February 16, 2017, the Company completed an agreement for the acquisition of a sulfide flotation mineral processing facility for its Tahuehueto Project. The mineral processing facility consists of most of the milling equipment required, once installed and operational, to process Tahuehueto ore at an estimated capacity of at least 550 tonnes per day. The Company acquired all of the vendor's interest in the mineral processing plant in consideration of \$1,300,000 with 50% payable immediately and the balance payable upon removing the equipment from its current storage location.

## 1.10 SUBSEQUENT EVENTS (continued)

- d) On March 6, 2017, The Company announced it has secured a US\$2 million line of credit for leasing underground and surface mining equipment with Caterpillar Credito, S.A. De C.V. The financial leasing terms will require a down payment of 15% of the equipment and monthly subsequent payments of principal and interest with a term of 36 to 60 months. These terms are valid up until November 30, 2017.
- e) Subsequent to December 31, 2016, a total of 991,000 share purchase warrants were exercised with an exercise price of \$0.05 for gross proceeds of \$49,550.
- f) Subsequent to December 31, 2016, a total of 125,000 stock options were exercised with an exercise price of \$0.12 for gross proceeds of \$15,000.

## 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 December 31, 2016, the Company's financial instruments consist of cash, amounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, obligation under share purchase obligation and the current portion of the long-term debt. 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 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 April 28, 2016: 94,016,995

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

Stock options as at April 28, 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	6,825,000	\$ 0.13	3.90	6,825,000	\$ 0.13	3.90

Share purchase warrants as at April 28, 2016:

<b>Number of warrants</b>	<b>Exercise price</b>	<b>Expiry date</b>
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 ten months ended December 31, 2016, and year ended February 29, 2016, and this accompanying MD&A (together, the "Annual 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](http://www.sedar.com).