



TELSON RESORUCES INC.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2017

Report Dated November 29, 2017

1.1 Date and forward-looking statements

Telson Resources Inc. ("Telson" or the "Company") has prepared this Management's Discussion and Analysis ("MD&A") as of September 30, 2017 and should be read in conjunction with the Company's condensed interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2017 and 2016. Additional information on the Company, is also available under the Company's profile at www.sedar.com and on the Company's website: www.telsonresources.com.

Unless otherwise stated, 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 \$ means Canadian dollars, US\$ are to United States dollars and MXN\$ to Mexican pesos.

The effective date of this MD&A is November 29, 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. is a Canadian based resource development company advancing two gold, silver and base metal projects towards commercial production over the coming months of 2017 and 2018. The Company's Tahuehueto Project, located in north-western Durango state, Mexico and its recently acquired Campo Morado Mine in Guerrero state, Mexico are both polymetallic deposits containing significant gold, silver, lead, zinc and copper.

The Company was incorporated on April 11, 1986, under the laws of British Columbia, Canada under the name of Samarkand Resources Corp., and most recently, 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, development and operation of mineral resource properties in North America. The head office of the Company is located at 1090 West Georgia Street, Suite 450, Vancouver, British Columbia, V6E 3V7, Canada.

1.2.2 Resource Properties

Campo Morado – Mexico

Effective June 13, 2017, the Company pursuant a share purchase agreement acquired all the shares of the companies that make up and own Campo Morado, an underground multi-metal mine located in the state of Guerrero Mexico which includes infrastructure, installations and equipment capable of processing 2,500 tonnes of ore per day. As part of the Compo Morado acquisition the Company acquired six mining concessions that comprise an area of approximately 12,045 hectares with six mineralized bodies containing approximately 16.7 million tonnes of measured and indicated resources grading 4.00% zinc, 0.81% copper, 0.93% lead, 165 g/t Ag and 1.79 g/t Au plus an additional 0.99 million tonnes of inferred mineral resources as independently calculated under NI 43-101 guidelines and published by the Company on November 8, 2017.

(Note - these resource estimates have been prepared in accordance with NI 43-101 and the CIM Definition Standards. Inferred mineral resources are considered to be too speculative to allow the application of technical and economic parameters to support mine planning and evaluation of the economic viability of the project. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for Preliminary Economic Assessments as defined under 43-101. It cannot be assumed that all or any part of the Inferred resources will ever be upgraded to a higher category.

Zinc equivalent calculations used metal prices of USD\$1.20/lb zinc, US\$2.80/lb for copper, US\$17/oz for silver, US\$1150/oz for gold and US\$0.90/lb for lead and metallurgical recoveries of 70% for zinc, 68% for copper, 38% for silver, 25% for gold and 60% for lead.

Description and location

Telson Resources through its newly acquired Mexican subsidiaries comprising Campo Morado have 100% ownership of, the Campo Morado Mine which includes an underground multi-metal mine with infrastructure, installations and equipment capable of processing 2,500 tonnes of ore per day, as well as six mining concessions located in the state of Guerrero Mexico.

Ownership

On June 13, 2017, the Company entered into a definitive share purchase agreement (the “Campo Morado Agreement”) with Nyrstar Mining Ltd. and Nyrstar Mexico Resources Corp. (collectively “Nyrstar”) to purchase all the shares of Nyrstar’s Mexican subsidiary companies that make up and own 100% of the Campo Morado mine (the Campo Morado Acquisition).

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

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

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

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

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

Mineral Resources

Campo Morado property comprises an area of approximately 12,045 hectares in six mining concessions. Historically there are 3,036 exploration diamond drill holes in place (577,155 m) outlining six mineralized bodies that have delineated NI 43-101 compliant resources (Reforma, El Largo, El Rey and Naranjo where all historic resources remain in place and two other zones, the G9 and G9 Del Oro that have seen significant historic production although significant resources still remain in place within these zones.

NI 43-101 compliant mineral resources as publicly disclosed by the Company on November 8, 2017 are presented within the following tables below.

Campo Morado Mineral Resource Estimate - November 2017							
Cut-off Grade (ZnEq%)	ZnEq (%)	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)
Measured							
3.0	7.06	17,033,000	1.42	98	0.73	0.67	3.17
4.0	8.02	13,450,000	1.60	113	0.77	0.78	3.71
5.5	9.47	9,321,000	1.84	137	0.82	0.95	4.56
7.0	11.00	6,365,000	2.08	162	0.88	1.11	5.44
Indicated							
3.0	6.17	16,869,000	1.27	119	0.69	0.60	2.26
4.0	7.14	12,366,000	1.43	145	0.73	0.73	2.68
5.5	8.79	7,399,000	1.72	200	0.79	0.92	3.30
7.0	10.78	4,188,000	1.99	286	0.87	1.11	3.89
Measured + Indicated							
3.0	6.62	33,902,000	1.34	108	0.71	0.64	2.72
4.0	7.60	25,816,000	1.52	129	0.75	0.76	3.22
5.5	9.17	16,720,000	1.79	165	0.81	0.93	4.00
7.0	10.91	10,553,000	2.04	211	0.88	1.11	4.82
Inferred							
3.0	5.15	3,318,000	0.99	86	0.53	0.59	2.10
4.0	6.03	2,157,000	1.12	105	0.57	0.71	2.54
5.5	7.64	997,000	1.33	150	0.67	0.92	3.20
7.0	9.49	437,000	1.57	226	0.81	1.08	3.65

Notes:

These resource estimates have been prepared in accordance with NI 43-101 and the CIM Definition Standards. Inferred mineral resources are considered to be too speculative to allow the application of technical and economic parameters to support mine planning and evaluation of the economic viability of the project. Under Canadian rules, estimates of Inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for Preliminary Economic Assessments as defined under 43-101. It cannot be assumed that all or any part of the Inferred resources will ever be upgraded to a higher category.

The mineral resources were depleted to December 2014, the last phase of mining, by removing all material from the tabulation as found in the excavation solids models provided by Telson Resources Inc.

Zinc equivalent calculations used metal prices of US\$ 1.20/lb zinc, US\$ 2.80/lb copper, US\$ 17/oz silver, US\$ 1150/oz gold and US\$ 0.90/lb lead, and metallurgical recoveries of 70% zinc, 68% copper, 38% silver, 25% gold and 60% lead.

A 5.5% ZnEq cut-off is considered to be appropriate for underground mining operations in Mexico. All mineral resource estimates, cut-offs and metallurgical recoveries are subject to change as a consequence of more detailed economic analyses that would be required in pre-feasibility and feasibility studies. The 5.5% ZnEq cut-off in bold is considered the base case mineral resource estimate. Other estimates are presented in the context of cut-off grade sensitivity analysis.

Some figures may not sum exactly due to rounding.

Historic development and production

The Campo Morado mine was commissioned by Farallon Mining Inc., and commenced commercial production in 2009. In 2010 Nyrstar NV purchased Farallon Mining Inc., in a friendly takeover bid valued at \$420 million and thereby took 100% ownership of the project. Subsequently in January 2015, Nyrstar suspended production and the mine was placed on care and maintenance due to deteriorating industry conditions.

During 2014, its last year of operations Campo Morado processed 657,000 tonnes of ore with an average grade of 1.2g/t Au, 115.7 g/t Ag, 4.6% Zn, 1.2% Cu and 0.9% Pb. The concentrates produced in the same year were 48,000 tonnes of Zn concentrate at 47% Zn and 29,000 tonnes of Cu concentrate at 13%, including 6 koz of Au and 0.9mm of Ag.

Management's plan for Campo Morado

During the fourth week of August 2017, Telson commenced underground mining operations at Campo Morado. Mining commenced within areas of the El Largo Zone containing higher precious metal values along with significant base metals and mineralized mined material transported and stockpiled at the mill site.

The Company commenced processing within the Campo Morado milling facility in late October 2017 at an initial mill throughput start up rate of approximately 1,400 tonnes per day. The first two years of production are planned to be mined from the G9 and El Largo ore bodies in areas of elevated gold and silver values within polymetallic base metal zones. Telson plans to increase the mine's production rate toward the mill's current capacity of 2,500 tonnes per day over the next six to twelve months.

Telson's metallurgists' have conducted numerous metallurgical testing at the mine site laboratory from mineralized material targeted for mining in the initial months of production. Testing has determined that by initially removing carbon organic matter as the first step plus, the addition of new types of reagents to the flotation process, recoveries could potentially be improved. To that end, an initial carbon flotation circuit and new reagents have been added to the Campo Morado processing plant circuit now in operation.

Telson also intends to add additional flotation cells to the overall circuit over the next several months to potentially further increase recoveries of all metals. Telson points out that that there are no guarantees any of these modifications to the processing circuit will prove successful and cannot be assured that recoveries will be increased above previous historical recoveries.

Although during Campo Morado's last full production year of 2014 only zinc and copper concentrates were recovered using room and pillar mining methods, Telson is developing underground to restart mining operations employing sub-level block caving mining methods to potentially reduce mining costs with an emphasis on maximizing recoveries of all economic metals including gold, silver, zinc, lead and copper. Additionally, Telson is planning to focus mining activities to zones outlined within the defined resources where higher precious metal content is available.

Exploration potential and plans

The Campo Morado Project contains excellent exploration potential to potentially develop additional resources. The project's former operator developed at least 15 largely untested regional geochemical anomalies many of these with coincident geophysical anomalies plus 10 largely untested regional geophysical anomalies identified through various geophysical methods including gravity, induced polarization, electromagnetic and magnetic surveying.

In addition to the regional exploration targets the mines former operator developed a number of significant borehole geophysical anomalies from within the existing mine workings which have identified more than eight underground targets that will be drill tested in the future in hopes of identifying additional stacked layers of volcanogenic massive sulfide mineralization that could be accessed from the current underground mine workings if exploration successfully proved up mineable mineralization.

The Company is developing exploration plans in order to follow up on the various targets identified by the project former operator. Although timing to commence exploration has not yet been scheduled, it is anticipated that exploration could start mid to late 2018 depending on free cash flows from the Company's mining operations.

Tahuehueto Project – Mexico

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 PFS 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 1.1 Tahuehueto Project Measured, Indicated, and Inferred Mineral Resource Estimate

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
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
Total Measured and Indicated	6,114	2.48	487	42.82	8,417	0.31	41,380	1.20	162,282	2.15	295,508
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 is presented in Table 1.2.

Table 1.2 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 1.3 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 1.4 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 1.5 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 1.6 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
Total CAPEX	32.2	5.4	37.6

Table 1.7 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
Total OPEX	192.2	59.24
Smelter	78.0	23.91
Freight & Marketing	15.7	4.80
Royalties	9.5	2.91
Total Operating Cash Cost	295.4	90.86

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 1.8 Tahuehueto Project Economic Results

Economic Metrics	Units	LOM Value
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

Economic Metrics	Units	LOM Value
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 and on the Company's website at www.telsonresources.com.

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 has relocated 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 is currently being prepared for transport to the mine site as soon as site preparations are ready to receive 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), over 300 meters crossing the El Creston structure and advancing between the El Creston structure and the El Perdido 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.

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

Pre-production program

Based upon the successful results of the previous initial scale bulk sample, Management elected to start a program of continuous pre-production during the Tahuehueto mine development and construction phase currently underway. The Company is now mining ore underground at an average rate of approximately 150 tonnes per day from an ore shoot estimated to contain at least 50,000 tonnes. Mining commenced early June 2017 and as of November 20, 2017, the Company has delivered approximately 14,667 tonnes of ore to the Atocha Mill site and processed approximately 12,000 tonnes of ore through Atocha mill. An additional 2,685 tonnes of ore has been stockpiled at the Atocha Mill and is currently being processed through the mill. An additional 2,500 tonnes of ore has been mined and is either stockpiled at the mine site or is in transport to the Atocha Mill as of November 20, 2017.

Processing at the Atocha mill to date has produced approximately 900 tonnes of zinc concentrate and 530 tonne of lead concentrate. Final sale terms have been determined for only 316 tonnes of zinc concentrate in 155 tonnes of lead concentrate which were sold for cash proceeds of US \$1,584,902. The balance of the cash proceeds from the sale of approximately 584 tonnes of zinc concentrate and proximately 375 tonnes of lead concentrate have yet to be fully determined as the Company is awaiting final independent assay results to determine metal content and final pricing.

1.2.3 Qualified Person

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

1.2.4 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 and mining activities.

Campo Morado has environmental permits in place to restart mining operations and Tahuehueto project 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. Telson emphasis in hiring local labor and procurement policies have been adopted to ensure that benefits flow to the communities and region surrounding the projects.

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.

1.2.5 Overall plan analysis and economics

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

During the nine months ended September 30, 2017, the Company capitalized an amount of \$727,178, in mineral interest and development assets as detailed in the table below:

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

1.3 Selected Annual Financial Information

Year ended	Non-current liabilities	Total assets	Total loss and Comprehensive loss	Loss per share
Ten months ended December 31, 2016	\$ 4,325,534	\$ 3,734,098	\$ 3,769,638	\$ (0.04)
Year ended February 29, 2016	100,319	992,124	951,004	(0.02)
Year ended 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

Three months ended September 30, 2017 and 2016.

During the three months ended September 30, 2017, the Company reported a loss and comprehensive loss of \$37,853,862, compared to a loss and comprehensive loss of \$1,356,451, respectively, for the three months ended June 30, 2016.

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

1. During the three months ended September 30, 2017, the Company incurred exploration and operating expenditures in the amount of \$3,079,657 compared to \$515,891 over the comparative period. The current balance in the period is attributable to the restarting operations of Campo Morado while the amount presented in the comparative period relates to expenditures in the Tahuehueto project. Effective January

- 1, 2017, the Tahuhueto project expenditures are being capitalized based on the decision by the board of directors to advance the project into development due to the positive results from the pre-feasibility study.
2. General expenses of \$444,950, were incurred for the three months ended September 30, 2017, as compared to \$833,893 in the same period of 2016. The decrease of \$388,943 is mainly attributable to stock base compensation in connection to the March 22, 2016 stock option grant. During the current period, the Company did not issue any new stock options.

General expenses such as consulting fees, wages and benefits total \$226,845, (\$190,626 – three months ended June 30, 2016). The increase of \$36,219 is mainly comprised of additional salaries paid to newly hired employees as a result of the increase in activity of the Company and the acquisition of Campo Morado. Office rent and administration decreased from \$155,427 to \$110,925 when compared the September 30, 2017 against the same period of previous year, mainly due to reclassifications done to conform the prior year figures to the current year presentation and other non-recurrent expenses recorded for the setup of new offices in 2016. Regulatory, transfer agent and shareholder information decrease by \$26,119 due to a late reclassification of expenses related to share issuance costs. Travel promotion and investor relations expenses also increased from previous quarter in response to additional marketing materials produced and more active participation in investor shows and conferences.

3. Other expenses of \$34,329,255 were recorded in the current period compared to \$6,667 during the three months ended September 30, 2016. This significant increase is attributable to the result of changes in the fair market values estimated in the acquisition of Campo Morado which was accounted for as a business combination.

Financing and interest costs in the current quarter were recorded mainly in connection to the long term debt. During the current quarter, the Company incurred in additional debt with Trafigura Mexico, S.A. de C.V., however the loan facility was entered by the end of September 2017.

Nine months ended September 30, 2017 and 2016.

During the nine months ended September 30, 2017, the Company reported an income and comprehensive income of \$137,763,247 and basic earnings per share of \$1.47, compared to loss and comprehensive loss of \$2,516,303 and basic loss per share of \$0.03, respectively, for the nine months ended September 30, 2016.

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

1. During the nine months ended September 30, 2017, the Company incurred operating expenses in the amount of \$3,076,657 compared to \$935,009 over the comparative period. The current balance in the period is attributable to the restarting operations of Campo Morado while the amount presented in the comparative period relates to expenditures in the Tahuhueto project. Effective January 1, 2017, the Tahuhueto project expenditures are being capitalized based on the decision by the board of directors to advance the project into development due to the positive results from the pre-feasibility study.
2. General expenses of \$1,411,695, were incurred for the nine months ended September 30, 2017, as compared to \$1,704,102 in the same period of 2016. The decrease of \$292,407 is mainly attributable to the share-based compensation recorded, as during the current period no stock options have been granted. All other line items report higher expenditures in connection to higher level of activity and operations of the Company and expenses generated by the acquisition of Campo Morado.

General expenses such as consulting fees, wages and benefits total \$626,359, (\$482,639 – nine months ended September 30, 2016). The increase of \$143,720 is mainly comprise of additional salaries paid to newly hired employees as a result of the increase in activity of the Company and the acquisition of Campo Morado. Legal and professional fees increased from \$153,156 to \$169,668 in the current nine months period mainly due to additional legal fees in connection to the acquisition of Campo Morado. Office rent and administration increased from \$145,359 to \$278,703 when compared the nine months ended September 30, 2017 against the same period of previous year, mainly due to reclassifications done to conform the prior year figures to the current year presentation and other non-recurrent expenditures related to new office setup. Travel promotion and investor relations expenses also increased significantly from the previous period in response to additional marketing materials produced and more active participation in investor shows and conferences.

Stock based compensation decreased from \$856,752 to \$60,304 during the nine months period ended in September 30, 2017, mainly because the fair value of the stock options granted was recognized over the period during which the stock options vested. The stock options being expensed were awarded in March of 2016 and vested 33.33% on the grant date and 33.33% every six months thereafter. No stock options have been granted during the nine months ended September 30, 2017.

3. Other income is higher by \$142,131,791 when compare with the nine months ended September 30, 2017 against the same period of previous year. This increase is mainly attributable to the result of the acquisition of Campo Morado which was accounted for as a business combination. As required under business combinations the Company allocated the purchase price to the assets acquired and liabilities assumed at estimated fair values on the acquisition date. The business combination resulted in a bargain purchase transaction because the fair value of assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid. The fair value of assets acquired include material amounts for supplies inventory, property, plant and equipment which were previously impaired and translated into a higher net cost of assets acquired and liabilities assumed when compared to the purchase price negotiated.

Financing and interest costs in the current nine months period were recorded mainly in connection to the long term debt entered into on July 2016 and the loan facility acquired on September 11, 2017.

1.5 Summary of Quarterly Results:

Three months ended	Working capital	Total assets	Total (gain) loss and Comprehensive gain (loss)	Gain (loss) per share
	\$	\$	\$	\$
September 30, 2017	(15,216,879)	188,161,103	(37,853,862)	(0.40)
June 30, 2017	(18,644,862)	219,103,656	176,498,289	1.87
March 31, 2017	1,256,606	4,494,313	(881,180)	(0.01)
December 31, 2016 ⁽¹⁾	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)

- (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, this quarter was a four-month period.

The Q3 Sep 2017 loss is produced mainly as a result of changes to the fair values initially estimated in the acquisition of Campo Morado which was accounted for as a business combination. As required under business combinations, the Company allocated the purchase price to the assets acquired and liabilities assumed at estimated fair values on the acquisition date. The fair values of the assets acquired and liabilities assumed exceeded the purchase price resulting in a bargain purchase gain included as other income during the current period. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary fair values and are subject to change within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

The Q2 Jun 2017 gain is produced mainly as a result of the acquisition of Campo Morado which was accounted for as a business combination. As required under business combinations, the Company allocated the purchase price to the assets acquired and liabilities assumed at fair value on the acquisition date. The fair value of the assets acquired exceeded the purchase price resulting in a bargain purchase gain included as other income during the current quarter.

The Q1 Mar 2017 loss decrease compared to the prior quarter since effective January 1, 2017, the Company started capitalizing exploration and development costs as mineral interest and development assets. Also, during

the current quarter the Company recorded a foreign exchange loss of \$400,935 due to the effect on translation of non-monetary assets related to the quarterly additions to plant and equipment.

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 tonnes to 3,500 tonnes. 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.

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 tonnes 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 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 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.

1.6/1.7 Liquidity, capital resources

As of September 30, 2017, the Company had a cash balance of \$4,627,473 and a working capital deficiency of \$(15,216,879). Current liabilities as of September 30, 2017 are in the amount of \$36,174,674, which have been incurred in connection with the acquisition and restart of Campo Morado mining project, the advancement of the Tahuehueto project into development and maintaining the Company's public listing in good standing.

During the three and nine months ended September 30, 2017, the Company expended net cash of \$1,403,381 and \$2,059,912 respectively in operating activities compared to cash expended of \$909,882 and \$2,119,355 respectively during the comparative period in the previous year.

The Company also expended \$233,832 and \$6,714,684 in investing activities during the three and nine months ended September 30, 2017 respectively. Compared to \$153,213 and \$164,432 recorded during the three and nine months ended September 30, 2016. The increase predominantly relates to the Campo Morado acquisition, the acquisition of the processing plant in the amount of \$1,300,000 and other mining equipment for the advancement of the Tahuehueto project and capitalized development related costs for the Tahuehueto project.

During the three and nine months ended September 30, 2017, the Company raised a net amount equivalent to \$5,993,861 and \$10,777,127 respectively, in financing activities mainly through the issuance of common shares in a private placement, the conversion of a convertible debenture, warrants and stock options exercised and a loan facility from Trfigura Mexico, S.A. de C.V. Cash was provided during the three and nine months ended September 30, 2016 in the amount \$1,718,108 and \$3,186,480 respectively in connection to a private placement and a line of credit.

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.

As at September 30, 2017, the Company has disposed of \$4,447,972 (MXN\$65,000,000) from its line of credit, it has accrued interest in the amount of \$505,712 and also paid interest in the amount of \$86,447. During the nine months ended September 30, 2016, the Company record accrued interest in the amount of \$23,831.

Loan Facility

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

As at September 30, 2017, the Company received US\$5,000,000 as proceeds from the loan facility, no other transaction was recorded in connection with the loan facility during the quarter. During the nine months ended September 30, 2016, the Company did not record any transaction in connection to this loan facility.

Common shares issued

During the nine months ended September 30, 2017, the Company issued 11,820,353 common shares for total net proceeds of \$4,800,149 in connection with a private placement, the conversion of a convertible debenture, warrants and stock options exercised. During the same period of the previous year the Company issued 12,367,333 common shares in relation to private placements.

Other sources of funds

As at September 30, 2017, 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	6,763,100	\$ 0.13	3.48	6,763,100	\$ 0.13	3.48

Share purchase warrants:

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

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

The Company's related parties consist of the Company's directors, officers and companies associated with them including the following:

- Noma Consulting Inc., a company owned by Omar Gracia Abrego, the Chief Financial Officer.
- Reyna Minas, S.A. de C.V., a company owned by Antonio Berlanga Balderas, the Chief Financial Officer.

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. During the three and nine months ended September 30, 2017 and 2016, the Company incurred the following charges by key management personnel, including directors and officers of the Company and companies controlled by directors and officers of the Company:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Compensation to key management personnel ⁽¹⁾	\$ 117,438	\$ 74,134	\$ 345,073	\$ 149,245
Share-based compensation	-	105,713	40,998	290,438
Exploration and evaluation expenditures	-	-	-	5,330
Loan repayment ⁽²⁾	-	59,000	-	59,000
Expenses recorded under office, rent and administration ⁽³⁾	2,583	2,616	10,107	8,878
	<u>\$ 120,021</u>	<u>\$ 241,463</u>	<u>\$ 396,178</u>	<u>\$ 512,891</u>

(1) The charge includes accounting fees paid to Noma Consulting, Inc.

(2) Loan provided by John Lynch, a former director of the Company.

(3) The charge includes reimbursement of office expenses paid to Reyna Minas, S.A. de C.V.

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

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

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

Key management personnel include directors and executive officers of the Company. Other than the amounts disclosed above, there was no other compensation paid or payable to key management personnel for the reported periods.

1.10 Subsequent events

Subsequent to September 30, 2017:

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

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 September 30, 2017, the Company's financial instruments consist of cash, amounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, obligation under share purchase obligation, current portion of the long-term debt and Nyrstar Mining, Ltd. 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 November 29, 2017: 124,014,488

Number of common shares issued and outstanding as at September 30, 2017: 104,721,348

Stock options as at November 29, 2017:

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	6,413,100	\$ 0.13	3.31	6,413,100	\$ 0.13	3.31

Share purchase warrants as at November 29, 2017:

Number of warrants	Exercise price	Expiry date
5,723,666	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 months ended September 30, 2017 and 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.