**TELSON MINING CORPORATION**

**Management's Discussion and Analysis**

YEAR ENDED DECEMBER 31, 2020

Report dated: May 26, 2021

(Expressed in thousands of Canadian dollars)

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Telson Mining Corporation (formerly Telson Resources Inc), ("Telson" or the "Company") has prepared this Management's Discussion and Analysis ("MD&A") as of March 31, 2021 and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2020. Unless otherwise stated, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") or ("GAAP") and all dollar amounts herein are presented in thousands of Canadian dollars unless stated otherwise. Unless otherwise stated and per share amounts, references to $ means thousands of Canadian dollars, US$ means United States dollars and MXN$ means Mexican pesos.

All information contained in this MD&A is current and has been approved by the Board of Directors of the Company as of May 26, 2021 unless otherwise stated. Additional information on the Company, is also available under the Company's profile at www.sedar.com and on the Company's website: www.telsonmining.com.

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

## 1.- Cautionary Note Regarding Forward-looking Information

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.

## 2.- Company Profile and Business Overview

Telson is a Canadian mining company listed on TSX Venture Exchange under the symbol "TSN" and it is focused on the operation and development of mineral resource properties in North America. The Company owns and operates Campo Morado Mine ("Campo Morado") in Guerrero state, Mexico and is also advancing its Tahuehueto mining project ("Tahuehueto") towards production, which is in Durango state, Mexico.

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 February 21, 2018, the Company changed its name to Telson Mining Corporation.

The location of the Company's mining properties are as follows:


**Campo Morado Mine**

Telson owns 100% of the Campo Morado 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 occupying approximately 12,045 hectares located in the state of Guerrero, Mexico.

After the acquisition of Campo Morado, the Company restarted mining operations on a pre-production basis starting in October 2017. Effective May 15, 2018 the Company completed commissioning of Campo Morado mine and declared commercial production.

On August 14, 2019, the Company curtailed operations at Campo Morado mine placing the mining project into care and maintenance as a result of declining zinc prices and community issues. However, with increasing zinc prices and significant improvements in community relations the Company made the decision to bring the mine project out of care and maintenance and restarted operations during the last week of January 2020. Nevertheless, on April 27, 2020 the Mexican Government proclaimed a national health emergency with an immediate suspension order of all "non-essential" public and private sector businesses, including mining, to mitigate the spread and transmission of the COVID-19 virus. As a result, Campo Morado temporarily suspended operations again during the months of April and May of 2020. Starting in June 2020, the Mexican Government deemed the mining industry to be an essential industry, resulting in lifting off the temporary country wide mining industry shut down, Campo Morado re-commenced mining activities on June 3, 2020 following safety and health protocols approved by the Mexican Government.

**Tahuehueto**

Tahuehueto includes 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 city, and 160 km northeast of the city of Culiacan, Sinaloa.

The most recent technical report published for Tahuehueto, a prefeasibility study and reserve/resource calculation, shows the project contains probable reserves of 3.3 million tonnes of grading 3.4 g/tonne gold, 41.8 g/tonne silver, 0.31% copper, 1.1% lead and 2.0% zinc. Furthermore, compliant resources inclusive with reserves, were calculated at Measured and Indicated (M&I) categories to 6.1 million tonnes grading 2.48 g/tonne gold, 42.8 g/tonne silver, 0.31% copper, 1.2% lead and 2.15% zinc plus Inferred Resources of 3.5 million tonnes grading 1.3 g/tonne gold, 37.5 g/tonne silver, 0.27% copper, 1.34% lead and 2.44% zinc.

Effective January 1, 2017 management determined that technical feasibility and commercial viability were established through the positive results associated with the pre-feasibility study completed for this project, therefore, the decision was taken to move the asset into a development stage asset under IFRS.

## 3.- Operating and Financial Performance Highlights – Three months ended March 31, 2021 First Quarter 2021 (“Q1-2021”)

- Mine operating profit of $5,189 and total income of $3,802
- Cash flow from operations before changes in non-cash working capital of $5,206
- Gross revenues of $21,216
- The Company processed 174,382 tonnes of ore (1,938 tonnes per day - “tpd”) grading 3.88% zinc, 0.33% copper, 125 g/t silver and 1.06 g/t gold.
- The Company produced 11,013 tonnes of zinc concentrate and 1,908 of lead concentrate,
- Approximately 11,106 tonnes of zinc and 1,888 tonnes of lead concentrates were sold with an average grade of 45% and 24% respectively
- Ore mined during the period was 157,200 tonnes of ore grading 4.11% zinc, 1.03% lead, 131 g/t silver and 0.99 g/t gold

**Board Changes**

On May 10, 2021, the Company announced a restructuring of its Board of Directors which included the following incoming Board members: David Rhodes, Natascha Kiernan, Mark Bailey and Tom Kelly, all independent Directors. In order to accommodate for this Board restructure, the Company also accepted the voluntary resignations as Board members of Rory Godinho, Enrique Margalef and Yao Sun.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

## 4.- Overall Operations Performance

**2021 Quarterly Operational Performance Results**

The following table and subsequent discussion provide a summary of the operating performance of the Company during Q1-2021:

| | Note | | Three months ended March 31, 2021 | | 2020 |
|---|---|---|---|---|---|
| **Operational** | 1 | | | | |
| Ore Processed | | | 174,382 | | 88,386 |
| Zn concentrate produced (ton) | | | 11,013 | | 6,380 |
| Average realized zinc price per tonne (US$) | | $ | 2,687 | $ | 1,858 |
| Zn grade | | | 46% | | 46% |
| Zn recovery | | | 74% | | 71% |
| Pb concentrate produced (ton) | | | 1,908 | | 1,346 |
| Average realized lead price per tonne (US$) | | $ | 1,709 | $ | 1,694 |
| Pb grade | | | 25% | | 22% |
| Pb recovery | | | 26% | | 32% |
| **Cost Analysis** | 1 | | | | |
| C1 Cash Cost (US$/lb) | | $ | 0.72 | $ | 0.78 |
| All-in Sustaining Cost (US$/lb) | | $ | 0.90 | $ | 1.00 |
| **Financial** | 1 | | | | |
| Gross revenues | | $ | 21,216 | $ | 7,727 |
| Mine operating profit | | $ | 5,189 | $ | 63 |
| Income (Loss) for the period | | $ | 3,802 | $ | (1,767) |
| Cash | | $ | 10,792 | $ | 242 |
| Working capital deficiency | | $ | (45,881) | $ | (59,023) |
| **Shareholders** | | | | | |
| Basic earnings (loss) per share | | $ | 0.02 | $ | (0.01) |
| Diluted earnings (loss) per share | | $ | 0.01 | $ | (0.01) |

Notes:
(1) On August 14, 2019, the Company curtailed operations at Campo Morado mine placing the mining project into care and maintenance as a result of declining zinc prices and community issues. However, with increasing zinc prices and significant improvements in community relations the Company made the decision to bring the mine project out of care and maintenance and restarted operations during the last week of January 2020.

**Operational Performance Results**

Campo Morado

Production and concentrate sales in Q1-2021

- Produced 11,013 tonnes of zinc concentrate grading an average of 46% zinc, 2.04 g/t gold, 588 g/t silver and sold 11,106 tonnes of zinc concentrate generating Q1-2021 revenue from zinc concentrate of US$10.1 million

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

- Produced 1,908 tonnes of lead concentrate grading an average of 25% lead, 1.15% copper, 7.40 g/t gold, 621 g/t silver and sold 1,888 tonnes generating Q1-2021 revenue from lead concentrate of US$2 million
- Approximately 157,520 tonnes of mineralized material were mined with average grades of 4.11% zinc, 1.03% lead, 131 g/t silver, 0.99 g/t gold
- Average recoveries achieved during Q1-2021 were 74% zinc, 26.5% lead, 10.2% gold, 18.5% silver
- An estimated 174,382 tonnes of mineralized material were processed through the processing plant
- C1 cash cost per lbs of US$0.72 decreased from its comparable period as ore processed increased in the current period. Please referred to note 1 above

Tahuehueto

Pre-production during Q1-2021

- There was no mining and/or processing during the first quarter of 2021

*Cautionary note – As required under IFRS, pre-commercial production revenues, costs and expenses incurred are capitalized to Mineral Interest and Development Assets up to the total of capitalized development asset. Any excess in revenues over the development asset, if any, is presented in the statement of income and comprehensive income as recovery of expenses under other income.*

## 5.- Quarterly Financial Performance Results

**Comparison of three months ended March 31, 2021 and 2020**

The following tables is a summary of the condensed interim consolidated statements of income (loss) and comprehensive income (loss) of the Company.

| | Three months ended March 31, 2021 | 2020 |
|---|---|---|
| Mine operating income | $ 5,189 | $ 63 |
| General expenses | (1,349) | (1,575) |
| Other expenses | (38) | (255) |
| **Total Income (loss)** | 3,802 | (1,767) |
| Foreign currency translation adjustment | 80 | 181 |
| **Total comprehensive Income (loss) for the period** | $ 3,882 | $ (1,586) |

During the three months ended March 31, 2021, the Company reported a total mine operating income of $5,189, a total comprehensive income of $3,882 and basic and diluted income per share of $0.02, compared to a total loss of $1,767 and total comprehensive loss of $1,586 and basic and diluted loss per share of $0.01, for the three months ended March 31, 2020.

During the current period, Campo Morado operated at full capacity, while during the comparative quarter Camo Morado operated only for two months and one week as the Company brought back Campo Morado from care and maintenance during the last week of January 2020.

The overall performance of Campo Morado has improved quarter over quarter during the last year or so. When compared Q1-2021 and Q1-2020, mine production increased from 40,533 tonnes to 157,520 tonnes, plant productions increased from 73,367 tonnes of ore processed to 174,382 tonnes in Q1-2021. These obviously translated into an increase of tonnes of concentrates produced and sold which contributed to the increase in mine profit and total income for the period. The following section will describe this in more detail.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Mine operating income for the three months ended March 31, 2021 and 2020 are comprised of:

| | | Three months ended March 31, | | |
|---|---|---|---|---|
| | | **2021** | | **2020** |
| **Revenue** | | | | |
| Gross sales | $ | 21,216 | $ | 7,727 |
| Treatment and selling costs | | (7,481) | | (4,185) |
| | | 13,735 | | 3,542 |
| **Cost of Sales** | | | | |
| Production cost | | 7,867 | | 3,142 |
| Royalties | | 451 | | 133 |
| Accretion of provision for site reclamation and closure | | 108 | | 95 |
| Depreciation and amortization | | 120 | | 109 |
| | | 8,546 | | 3,479 |
| **Mine operating income** | **$** | **5,189** | **$** | **63** |

During the three months ended March 31, 2021, the Company sold an estimated 11,106 tonnes of zinc concentrate and 1,888 of lead concentrate at an average price per tonne of US$2,681 and US$1,968, respectively, resulting in net revenue of $13,735. Revenue is net of treatment changes, freight and selling costs. In comparison during the three months ended March 31, 2020, the Company reported a mine operating profit in the amount of $63 as a result of 5,487 tonnes of zinc concentrate sold and 1,126 tonnes of lead concentrate sold at an average price per tonne of US$1,877 and US$1,709 respectively. Resulting in net revenue of $3,542.

Total cost of sales incurred during the three months ended March 31, 2021 was $8,546 (March 31, 2020 – $3,479), which includes production cost in the amount of $7,867 (March 31, 2020 – $3,142), which relates to direct costs attributable to the production of concentrates. It also includes royalties in the amount of $451 (March 31, 2020 – $133), which relate to a discovery royalty payable to Servicio Geologico Mexicano. Accretion and depreciation were also included for $108 and $120 (March 31, 2020 – $95 and 109), respectively. Accretion recorded relates to the increase in the carrying amount of the provision for site reclamation and closure due to the passage of time by using a discounted cash flow approach and depreciation was recorded to recognize the declining value of its tangible assets due to its use based on the straight-line method over the estimated life.

During the three months ended March 31, 2020 the Company processed 88,386 tonnes of mineral compared to approximately 174,382 tonnes processed in the current period, this represents an increase in production of about 100% percent. Other variables such as treatment and selling costs, production costs associated with the production of concentrates and royalties also increased accordingly on the same basis as production increased.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

General and administration expenses for the three months ended March 31, 2021 and 2020 are comprised of:

| | Three months ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| **General Expenses** | | |
| Consulting fees, wages and benefits | $ 582 | $ 1,249 |
| Legal and professional fees | 92 | 35 |
| Office, rent and administration | 307 | 123 |
| Amortization of right-of-use assets | 5 | 43 |
| Regulatory, transfer agent and shareholder information | 3 | 16 |
| Travel, promotion and investor relations | 78 | 109 |
| Share-based compensation | 282 | – |
| | $ 1,349 | $ 1,575 |

During the three months ended March 31, 2021 general expenses of $1,349 were incurred, as compared to $1,575 in the period ended March 31, 2020. The net decrease of $226 is mainly attributable to a decrease in consulting fees, wages and benefits and an increase in share-based compensation. Consulting fees, wages and benefits decreased by $667 as a result of expenses reclassified to production cost. During the year 2020 the Company identified expenses that were reclassified to production cost.

Share-based compensation recorded in the current period relate to stock options granted on February 26, 2021, to certain directors, officers, employees and insiders of the Company for up to an aggregate 4,700,000 shares in the capital stock of the Company. The options are exercisable on or before February 25, 2026 at a price of $0.30 per share. The stock options granted vest as to one third on the date of the grant, one third after six months and one third on the first-year anniversary; this represents a total vesting period of 12 months.

Legal and professional fees increased by $57 in connection to extra legal fees incurred during the Q1-2021 as a result of more legal corporate activity in connection to the preparation and review of agreements related to the restructure of debt, loan agreement with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the “Accendo Syndicate”) to provide the Company up to US$25 million of financing (collectively the “Financing”) to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes.

| | Three months ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| **Other (income) expense:** | | |
| Interest income | $ (211) | $ (429) |
| Accretion of provision for site reclamation and closure | 7 | 8 |
| Change in fair value of marketable securities | 196 | (141) |
| Interest expense | 493 | 398 |
| Other expenses | 55 | – |
| Foreign exchange (gain) loss | (502) | 419 |
| | $ 38 | $ 255 |

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Other expense in the amount of $38 was recorded for Q1-2021, compared to $255 of other expenses recorded in the same period of previous year. The net decrease is mainly attributable to 1) a $217 decrease in interest income due to a non-recurring accounting reversal recorded during the comparative period in connection to a provision write off, 2) an increase of $337 in fair value of the marketable security. The marketable security relates to a senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at March 31, 2021 and are therefore classified as level 1 within the fair value hierarchy with an interest rate of 11% per annum, payable every six months. The investments' maturity date is August 2023, and 3) a decrease of $921 attributable to fluctuations in foreign exchange. Foreign exchange variation is recorded in connection to fluctuations in exchange rates between the US dollar, Mexican peso and Canadian dollar and the underlying assets or liability and the currency in which these are payable.

## Selected Quarterly Financial Information

| | 2021 | 2020 | | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Gross revenues | $ 21,216 | $ 18,960 | $ 11,148 | $ 6,608 | $ 7,727 | $ 1,580 | $ 1,068 | $ 13,043 |
| Mine operating income (loss) | 5,189 | (260) | 473 | (756) | 63 | (3,156) | (233) | (501) |
| Net profit (loss) | 3,802 | (9,680) | 4,377 | (4,553) | (1,768) | (24,163) | (709) | (2,615) |
| Basic and diluted earnings (loss) per share | 0.02 | (0.06) | 0.03 | (0.03) | (0.01) | (0.17) | (0.02) | (0.02) |
| Cash | 10,792 | 257 | 729 | 662 | 242 | 145 | 17 | 47 |
| Total assets | 64,125 | 52,924 | 52,862 | 50,766 | 52,355 | 51,234 | 71,220 | 70,002 |
| Non-current liabilities | 6,465 | 6,435 | 6,422 | 5,754 | 5,758 | 6,228 | 11,248 | 11,431 |
| (Deficiency) Equity | (12,316) | (26,711) | (23,493) | (25,078) | (24,531) | (24,132) | (194) | 1,525 |
| Working capital deficiency | (45,881) | (60,334) | (56,516) | (58,912) | (59,023) | (56,239) | (42,217) | (39,384) |

Starting on Q1-2020 the Company made the decision to restart Campo Morado mining operations. Nevertheless, on April 27, 2020 the Mexican Government proclaimed a national health emergency with an immediate suspension order of all "non-essential" public and private sector businesses, including mining, to mitigate the spread and transmission of the COVID-19 virus. As a result, Campo Morado temporarily suspended operations again during the months of April and May of 2020. Starting in June 2020, the Mexican Government deemed the mining industry to be an essential industry, resulting in lifting off the temporary country wide mining industry shut down. Campo Morado re-commenced mining activities on June 3, 2020 following safety and health protocols approved by the Mexican Government. Production at Campo Morado has steadily increased every quarter as a result of operating changes to go back to the original design of the milling process. The production results reported during the last quarter of 2020 are more consistent with management's expectations.

Q1-2021 keep showing the overall economic and operations improvements of the Company since February 18, 2020. All the key indicators such as mine and production rates, sales and other have significantly improved quarter over quarter which translates to higher revenues, lower costs and expenses and higher profits.

## Cash flow results

The following table provides a summary of cash flows for the three months ended March 31, 2021 and 2020:

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

| | Three months ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| **Cash provided by (used in):** | | |
| Operating activities | $ 1,069 | $ (768) |
| Investing activities | (364) | (855) |
| Financing activities | 9,812 | 1,112 |
| Effect of foreign exchange rate changes on cash | 18 | 608 |
| **Increase in cash during the period** | **10,535** | **97** |
| Cash beginning of period | 257 | 145 |
| **Cash end of period** | **$ 10,792** | **$ 242** |

As of March 31, 2021, the Company had a cash balance of $10,792 and a working capital deficiency of $45,881. Current liabilities at the same date are in the amount of $69,976, 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 period ended March 31, 2021, the Company generated net cash in operating activities in the amount of $1,069 compared to cash used of $768 during the same period of last year. The increase in cash is due to the increase in the total income for the period and changes in working capital items that used most of the available cash to pay for accounts payable and accrued liabilities.

The Company also used cash for $364 in investing activities during Q1-2021 compared to $855 recorded during the period ended March 31, 2020. The increase is the net of $292 of cash used in development asset additions to keep the advancement of its Tahuehueto project and $72 of addition to fixed assets. The comparative period from the previous year is $nil of cash use in acquiring fixed assets and $855 used to develop mineral properties in Tahuehueto mine.

During the current period, the Company generated $9,812 in financing activities comprised mainly of $9,602, shares issued on private placements net of share issuance costs. Current private placement will mainly be used to ramp up development activities at the Tahuehueto project and general working capital purposes. In addition, the company received $377 proceeds in connection to stock options exercised.

## 6.- Campo Morado Mine and Tahuehueto Mining Project

### Campo Morado

Summary of NI 43-101 compliant Mineral Resources and Preliminary Economic Assessment, the "PEA"

The PEA Report was prepared by Eric Titley BSc, PGeo of Titley Consulting Ltd., William J. Lewis BSc, PGeo of Micon International Limited ("Micon"), Christopher Jacobs CEng, MIMMM of Micon, James W.G. Turner BSc(Hons) ACSM, MSc MCSM, MIMMM CEng of Micon and Eur Ing Bruce Pilcher CEng, FIMMM, FAusIMM (CP) of Micon.
Campo Morado PEA Highlights

Undiscounted cash flow before income and mining taxes of US$114M

- Pre-tax Net Present Value ("NPV") at an 8% discount rate of US$81M
- Undiscounted cash flow after income and mining taxes of US$91M
- After-tax NPV at a discount rate of 8% of US$65M
- Life of mine ("LOM") of 12 years, with 9.7 million tonnes of potential mill feed at an average grade of 4.33% zinc grade, 1.00% lead grade, 0.78% copper grade, 131.9 grams per tonne ("g/t") of silver and 1.71 grams per tonne ("g/t") of gold.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Note – only potential mill feed resources located in close proximity to existing underground mine workings that are easily accessible with limited mine development are currently included in the PEA mine plan. There are additional measured and indicated resources of approximately 6.9 million tonnes available that could extend the projects LOM.

- Mining rate of 2,500 tonnes per day ("tpd")

Campo Morado Mine resources estimate with effective date as at November 5th, 2017:

| Cut-off ZnEq (%) | ZnEq (%) | Tonnes | Au (g/t) | Ag (g/t) | Cu (%) | Pb % | Zn (%) |
|---|---|---|---|---|---|---|---|
| Measured | | | | | | | |
| 3.0 | 6.94 | 17,004,000 | 1.34 | 91 | 0.73 | 0.67 | 3.17 |
| 4.0 | 7.87 | 13,412,000 | 1.49 | 104 | 0.76 | 0.78 | 3.71 |
| **5.5** | **9.27** | **9,292,000** | **1.70** | **124** | **0.82** | **0.94** | **4.56** |
| 7.0 | 10.71 | 6,318,000 | 1.88 | 143 | 0.87 | 1.11 | 5.44 |
| Indicated | | | | | | | |
| 3.0 | 5.78 | 16,848,000 | 1.25 | 85 | 0.68 | 0.61 | 2.25 |
| 4.0 | 6.62 | 12,324,000 | 1.42 | 99 | 0.72 | 0.73 | 2.68 |
| **5.5** | **7.94** | **7,335,000** | **1.70** | **123** | **0.78** | **0.92** | **3.31** |
| 7.0 | 9.32 | 4,086,000 | 1.96 | 151 | 0.86 | 1.12 | 3.94 |
| Measured + Indicated | | | | | | | |
| 3.0 | 6.36 | 33,852,000 | 1.29 | 88 | 0.70 | 0.64 | 2.71 |
| 4.0 | 7.27 | 25,736,000 | 1.46 | 102 | 0.74 | 0.76 | 3.22 |
| **5.5** | **8.68** | **16,627,000** | **1.70** | **123** | **0.80** | **0.93** | **4.01** |
| 7.0 | 10.16 | 10,404,000 | 1.91 | 146 | 0.87 | 1.11 | 4.85 |
| Inferred | | | | | | | |
| 3.0 | 5.03 | 3,316,000 | 0.98 | 76 | 0.52 | 0.58 | 2.10 |
| 4.0 | 5.85 | 2,152,000 | 1.11 | 90 | 0.55 | 0.71 | 2.54 |
| **5.5** | **7.27** | **988,000** | **1.32** | **116** | **0.64** | **0.92** | **3.20** |
| 7.0 | 8.75 | 416,000 | 1.52 | 148 | 0.76 | 1.10 | 3.78 |

Campo Morado Operations

Telson purchased Campo Morado in September 2017 and during August 2017, Telson commenced underground pre-production mining operations at Campo Morado. Mining development commenced within the El Largo Zone with mineralized mined development material transported and stockpiled at the mill site.

Pre-production test milling operations started on October 14, 2017. Mining and milling pre-production operations continued from January 1, 2018 through to May 14th, 2018 and on May 15th, 2018 Telson declared Commercial Production.

On August 14, 2019, the Company suspended mining operations at Campo Morado placing the mine into care and maintenance as a result of week zinc prices and certain issues with a small group of local community members.

Telson brought the mine out of care and maintenance and reinitiated mining and milling operations during late January 2020, temporarily suspended operations during April and May 2020 as mandated by the Mexican Government for COVID-19 precautions, and re-initiated Mining operations September 4, 2020 after mining was declared an essential service within Mexico.

As of the date of this MD&A mining operations are continuing.

Management plans to investigate technologies for the potential increase of precious metal recoveries at Campo Morado and if successful, will have additional mine flexibility to target precious metal rich zones in times of reduced base metal pricing. These technologies may also allow the Company to reprocess the existing tailings stored in the historic tailings facility to potentially recover a portion of the precious metals contained within the tailings.

- Maelgwyn Mineral Services, a UK based consulting engineering company specializing in metal recovery technology particularly in the recovery of precious metals from refractory ores, conducted preliminary Leachox Process testing of samples from Campo Morado in 2013 for Nyrstar, the mines' former owner. Samples tested were from 2013 process tailings, presumably G9 Zone, as well as fresh mineralization from the Reforma deposit, a future production zone. For more detailed technical information on the Leachox process, please visit the Maelgwyn website at: ***https://www.maelgwyn.com/maelgwyn-minerals-leachox-refractory-gold-process-hits-the-gold-standard/***

  Maelgwyn Leachox testing indicated that substantial increases in precious metal recoveries could be available at Campo Morado using Maelgwyn Leachox Process. Very positive results were obtained in the 2013 testing for both of the samples submitted with a maximum recovery of 65% gold and 75% silver at a grind size of 20 microns from the process tailings sample and a maximum recovery of 45% gold and 81% silver at a grind of 40 microns from the Reforma deposit sample. The report stated, "It should be noted that the above test work was performed at a scouting level only and higher recoveries would probably be achieved with optimization work".

  Telson Management intends to continue Leachox testing to determine the viability of incorporating this technology at Campo Morado to potentially achieve markedly increased gold and silver precious metal recoveries. Thus, the Company has engaged Maelgwyn Mineral Services to provide an Imhoflot Flotation Pilot Plant to conduct a minimum three month extensive metallurgical testing program. This program, is designed to potentially increase recoveries of base metals, using microfine grind mineralization as well as to explore the possibility of producing a gold rich pyrite concentrate for sale. Also, the Company aims to take the Leachox Process testing through second stage and thereby determine the feasibility of implementing this technology into the current processing facility and thereby increase precious metal recoveries. The pilot plant is in the process of being shipped from Europe and expected to arrive on site in Q2.

  Telson also intends to initiate metallurgical testing utilizing other potential recovery methods such as the Albion Process, bioleaching and the SART process to test the effectiveness of these technologies to improve recoveries from ongoing operations and potentially reprocessing the existing precious metal rich tailings stored within the historic tailings storage facility.

**Tahuehueto Mining Project**

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 Tahuehueto.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

The PFS was prepared by Metal Mining Consultants Inc. based in Highlands Ranch, Colorado. 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 is an advanced stage polymetallic project. The mineralization consists of epithermal Au-Ag veins and brecciated structures with lead, zinc and copper, 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 the day of this PFS, 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 totalling 47,276m 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.

Tahuehueto 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 US$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.

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 Tahuehueto Measured, Indicated, and Inferred Mineral Resource Estimate cut-off grade of 2.5 g/t of gold equivalent (AuEq)

| 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 |

Tahuehueto Bulk Sample and Pre-production Testing

On February 23, 2017, the Company announced that it had 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.

The collection and processing of this industrial test provided proof of concept that the selective mining method utilized in the bulk sample collection to be employed at Tahuehueto in future mining operations resulted in industry-standard mining costs and metal recovery processes utilized at the sulphide flotation toll mill were very successful in producing saleable lead and zinc concentrates.

Tahuehueto Pre-production Program

Based upon the successful results of the above referenced industrial-scale bulk sample, Management elected to start a program of pre-production during the Tahuehueto mine development and construction phase. Mining commenced early September 2017 and continued throughout 2018 and part of 2019. Management curtailed pre-production at Tahuehueto during Q3 2019.

Tahuehueto Pre-production operations during 2019, produced a total of 32,558 tonnes of ore.
During 2019, an estimated 12,316 tonnes of ore were shipped to the Atocha Toll Mill.

Mineral processing at the Atocha Toll mill processed 13,574 tonnes of ore producing,

- 436 tonnes of lead concentrate with average grades of 90.08 grams per tonne gold, 879 grams per tonne silver, 39% lead, and 4.80% copper.
- 547 tonnes of zinc concentrate with average grades of 12.23 grams per tonne gold, 158 grams per tonne silver, and 45% zinc.

Overall average metal recoveries achieved during the 2019 were 83.83% gold, 84.56% silver, 88.89% lead, 82.02% zinc, and 93.37 copper.

Underground Exploration

Tahuehueto underground development along the major mineralized structure, El Perdido, has now been extended approximately 225 meters along strike to the north-east from the Level 12 access decline. The first 60 meters of this development was designed to prepare reserves identified by previous drilling for mining, however, the development drift was extended in continuous mineralization beyond known reserves/resources outlined by previous drilling and exposed an additional 165 meters of continuous mineralization beyond the known drilling. This development is effectively serving as both mine development and underground exploration and is adding new resources at Tahuehueto. Underground exploration drilling is planned to further explore this newly exposed mineralization within the El Perdido structure.

Channel sampling results from this newly exposed El Perdido mineralization are the subject of corporate news releases available on the Company's web site and are verifying the continuity of mineralization along the El Perdido structure helping to prove managements assumption that the El Perdido Zone connects with the Santiago Zone on the same structure and if continuously mineralized will allow new exploration along approximately 800 meters of unexplored structure which could add significant additional resources to the project.

Mine Construction and Underground Development.

The Company initiated underground development work in November 2017. Underground development is estimated to be 90% complete to provide continuous ore feed for at least the first full year of production to the on-site processing facility under construction. Development included the Level 12 decline, the El Perdido development drift, El Creston development drift, the Haulage level portal, and the main access decline for Level 20 known as Ramp 540.

Telson initiated construction activities on-site at Tahuehueto in 2018. To date, mill construction has advanced to within an estimated 60% of completion with concrete foundations, retaining walls, steel structures to house mill equipment ready for final stages of assembly. Flotation cells, conditioning tanks, pumps, and other processing equipment have been installed while grinding and crushing areas have reached an advanced stage being readied to receive equipment per the construction plans. Preparation of the mine laboratory and camp facilities such as dormitories, cafeteria and sanitation facilities are in final construction or completed. Water pumping system, electrical power generation and tailings storage facilities are in final stages of design engineering with construction to be initiated upon Telson securing additional construction funding.

As a result of reduced cash flows from the Company's Campo Morado operations, management curtailed, on a temporary basis, its construction efforts at Tahuehueto and has re-evaluated its anticipated timeline to complete construction of the 1,000 tonne per day mining operation. Management now estimated that within eight to twelve months of securing additional funding, mine construction and development should be completed to allow mill commissioning and the initiation of on-site pre-production.

On February 23, 2021, the Company announced that it has executed a Letter of Intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the "Accendo Syndicate") to provide up to US$25 million of financing (collectively the "Financing") to complete the construction and ramp-up of Telson's 100% owned Tahuehueto project The reader is referred to the Company's press release of February 23, 2021 available on the Company's web site, www.telsonmining.com

On March 30, 2021, the Company announced that it had completed the first stage of the above referenced financing by closing a $10.1 million non brokered private placement. Proceeds from this private placement have allowed the Company to reinitiate construction efforts at Tahuehueto. The reader is referred to the Company's press release of March 20, 2021 available on the Company's website www.telsonmining.com. Although the proceeds of this private placement alone are insufficient to completely fund the final construction costs estimated at approximately US$13.5 million including a 15% contingency, the Company has chosen to reinitiate construction now in anticipation of receiving the full balance of the Financing from Accendo Syndicate which will bring enough funding for the completion of its Tahuehueto project. The closing of the full Financing is anticipated to occur Q2-2021 on completion and execution of formal documentation.

With full funding in place the Company anticipates that it will be able to continue construction efforts over the coming months to potentially commence pre-production by the end of 2021.

Mineral Properties and Development Assets

Effective January 1, 2017, the Company commenced capitalization of all direct costs related to the development of the Tahuehueto project to property, plant and equipment under IAS 16, as management determined the technical feasibility and commercial viability were established through the positive results associated with the pre-feasibility study, thereby moving it into a development stage asset under IFRS.

Additionally, since the acquisition of Campo Morado Mine the Company capitalized all direct costs related to the restart of the operations and the commencement of commercial production. Effective May 15, 2018, the Company declared commercial production; therefore, the Company stopped capitalizing costs and expenses related to mineral interest and development assets for this project and since then, all revenues and cost of sales are now presented in the statement of income or loss.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

As at March 31, 2021, the Company capitalized the following acquisition and developments costs:

| | | Tahuehueto |
|---|---|---|
| Balance as at December 31, 2020 | $ | **16,585** |
| **Costs incurred:** | | |
| Depreciation capitalized | | 273 |
| Assaying, data, and maps | | 1 |
| Camp cost, equipment, and field supplies | | 43 |
| Fuel and consumables | | 6 |
| Supplies, lubricants and other | | 5 |
| Project general and office expenses | | 66 |
| Permitting, environmental and community costs | | 3 |
| Salaries and wages | | 26 |
| Share-based compensation | | 53 |
| Travel and accommodation | | 4 |
| Interest capitalized, net | | 426 |
| Total additions for the year | | 906 |
| Foreign currency movement | | (213) |
| **Balance, March 31, 2021** | **$** | **17,278** |

**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, CEO and Director.

## 7.- Non-GAAP measures

The Company has included certain non-GAAP performance measures throughout this MD&A. These performance measures are employed by management to assess the Company's operating and financial performance and to assist in business decision-making. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors and other stakeholders use this information to evaluate the Company's operating and financial performance; however, as explained elsewhere herein, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

C1 cash cost per pound of payable zinc

C1 cash costs per pound of payable zinc for the Campo Morado Mine operation are estimated by adding the total cost to produce concentrate (mining, milling, site general and administration), adding the cost of transporting concentrate to the point of sale, adding the cost of smelter treatment and refining charges, subtracting the by-product credits estimated from sales of lead, silver, gold and dividing by the pounds of payable zinc. By-product credits are calculated using the realized weighted average metal price, during the year.

All-in sustaining costs ("AISC")

The Company believes that AISC more fully defines the total costs associated with producing zinc. The Company calculates all-in sustaining costs as the sum of total cash costs (as described above), corporate general and administrative expense (net of stock-based compensation), reclamation cost accretion and amortization and sustaining capital, all divided by the zinc pounds produced to arrive at a per pound figure.

Other companies may calculate this measure differently as a result of differences in underlying principles and policies applied. Differences may also arise due to a different definition of sustaining versus growth capital.

| | Three months ended March 31, 2021 | 2020 |
|---|---|---|
| **Non GAAP reconciliation** | | |
| Production payable Zinc (1,000 lb) | 9,171 | 5,395 |
| Production cost per financial statements (US$000) | $ 6,175 | $ 2,337 |
| Treatment and refining charges (US$000) | 4,195 | 2,411 |
| Freight (US$000) | 1,716 | 701 |
| By-product credits (US$000) | (5,449) | (1,263) |
| C1 cash cost (US$000) | $ 6,636 | $ 4,185 |
| **C1 cash cost per payable pound of zinc (US$/lb)** | | |
| Production Cost | $ 0.67 | $ 0.43 |
| Treatment and refining charges | 0.46 | 0.45 |
| Freight | 0.19 | 0.13 |
| By-product credits – estimated | (0.59) | (0.23) |
| **C1 cash cost per payable pound of zinc (US$/lb)** | $ 0.72 | $ 0.78 |
| **All-in Sustaining Costs** | | |
| C1 cash cost (US$000) | $ 6,636 | $ 4,185 |
| Depletion, Depreciation & Amortization (US$000) | 95 | 81 |
| Accretion (US$000) | 85 | 71 |
| Corporate Costs (US$000) | 708 | 973 |
| Royalties (US$000) | 357 | 99 |
| Capital Expenditure (sustaining) (US$000) | 343 | – |
| All-in Sustaining Costs (US$000) | $ 8,224 | $ 5,410 |
| AISC per payable pound of zinc (US$/lb) | $ 0.90 | $ 1.00 |

Note: Amounts in the table above are presented in thousands of US Dollars. These amounts were translated into US Dollars using the average foreign exchange rate or the true US Dollar amounts if available.

## 8.- Liquidity

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition, development, exploration and evaluation of assets. The Board does not impose quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business.

The Company's principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project. Effective May 16, 2018 the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the "Accendo Syndicate") to provide up to US$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. Notwithstanding, subsequent to completing the financing with the Accendo Syndicate and placing Tahuehueto into commercial production there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company's current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company's continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company's ability to dispose of some or all of its interests on an advantageous basis. These conditions may cast significant doubt upon the Company's ability to continue as a going concern. The Company has a working capital deficit as at March 31, 2021 of $45,881 and an accumulated deficit of $96,950. Current liabilities as of the same date are in the amount of $69,976, 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. The condensed interim consolidated financial statements of the Company as at March 31, 2021, have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

There are inherent risks to mining that may affect the Company's liquidity. The ability to generate revenue and positive cash flow will depend on the ability of the Company to meet its production targets, ship concentrates and realize economic commodity prices for Zinc, Lead, Gold and Silver. Exchange rates could also have a significant impact on the Company's profitability since some of its costs and expenses are denominated in currencies other than the US dollar.

The Company has received the following sources of capital:

**Line of Credit**

On July 22, 2016, the Company entered into an agreement with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. ("Escorfin"), for a line of credit for up to $9.6M (MXN$150 million) (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 instalments. Furthermore, the Company is required to pay back any cash disbursements in 24 equal consecutive monthly instalments 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 completed Internal Scoping Study.

For the three months ended March 31, 2021, the Company has an outstanding balance of $4,117, it accrued interest in the amount of $105 and repaid principal and interest in the amount of $nil. The Company is also in default of its contractual obligations in respect to the line of credit which is therefore presented within current liabilities in the statement of financial position.

The Company is working with Escorfin to restructure the terms of the LOC, please refer to the subsequent events section of this MD&A for additional details on the debt restructure.

**Due to Nyrstar Mining Ltd**

As at March 31, 2021, the Company has a balance owing of $14,034, which includes accrued interest of $223 for the period and interest paid of $nil.

On June 13, 2017, the Company acquired Campo Morado Mine for a total purchase price of US$20 million as follows: 1) US$0.8 million at signing of the agreement (paid), 2) US$2.7 million on or before September 12, 2017 (paid), and 3) US$16.5 million on or before June 13, 2018 (US$11 million paid).

On June 12, 2018, the Company renegotiated the terms for the remaining US$8.5 million balance of the Campo Morado Mine acquisition and entered into a loan agreement with Nyrstar Mining Ltd. ("Nyrstar"). Subsequently, on November 19, 2018, the Company amended the terms of the loan agreement to mainly reduce the monthly principal repayment from US$1.0 million to US$0.5 million, which also effectively extended the repayment period. The main terms of the amended loan agreement are as follows:

- Monthly principal repayment of US$0.5 million, plus
- A fixed interest rate of 10% per annum, plus
- Along with the monthly principal repayments and interest mentioned above, the Company will also pay:
    - 70% of any monthly free cash flow generated by Telson; plus, any monthly excess cash balance above US$0.5 million; plus
    - 50% of the monthly free cash flow generated by Telson on the Tahuehueto Project once Telson declares commercial production.

On October 11, 2019, the Company received a formal notice of default in regards to the Campo Morado Loan Agreement. As a result, the Company is required within five business days from the date of the default notice letter to pay all amounts currently due and payable under the loan agreement. The Company was not able to make payments as requested in the notice of default.

During June 20, 2020, the Company entered into a letter agreement (the "Nyrstar Letter Agreement") with Nyrstar in which Nyrstar has provided Telson a conditional waiver to Telson's default status of the Campo Morado Loan Agreement.

Under the terms of the Nyrstar Letter Agreement, Telson acknowledges that it is in default of its obligations under the Nyrstar Loan Agreement and as an inducement for Nyrstar to enter into the Nyrstar Letter Agreement granting the waivers, Telson, with Trafigura's consent, has agreed to accept Nyrstar into the Trust Agreement (the "Trust"), thereby granting full security to Nyrstar, subordinate to Trafigura, and new secured lender(s) that may provide debt funding that fund the final Tahuehueto mine construction costs.

The Company is working on restructure the terms of the Nyrstar loan which is expected to be completed before the end of Q2-2021. There is no assurance the Company will be successful in reaching new commercial terms on this credit facility.

**<u>Loan Facilities</u>**

On September 11, 2017, the Company entered into a loan agreement ("Loan Agreement Campo") with Trafigura 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 (3 month) plus 5%, it has a three-year term with nine months grace period followed by thirty monthly repayments. In connection to the loan agreement the Company also entered into an Offtake agreement with Minas de Campo Morado, S.A. de C.V., ("Offtake Agreement Campo") in which the Company will sell all its zinc and lead concentrates for a fifty-one-month term starting October 2017.

For the three months ended March 31, 2021, the Company has a balance owing of $5,019 which includes accrued interest of $65 incurred in the current period.

On December 7, 2017, the Company entered into a loan agreement ("Loan Agreement Real") with Trafigura in the amount of US$15 million for financing working capital, rehabilitation, and operation of the Tahuehueto mining project. The Loan Facility is available in three tranches, the first tranche equivalent to US$7.5 million was received upon signing of the agreement. The second tranche equal to US$5 million was received on November 6, 2018. The third tranche for US$2.5 million was available in nine months after the signing of the agreement but shall not pass nine months after the signing of the agreement subject to securing additional funding of US$2.5 million in the form of equity and/or a loan and at least US$2 million of these funds are invested on capital expenditures. The loan bears interest at an effective annual rate equivalent to LIBOR (1 year) plus 6%, it has a three-year term with a twelve-month grace period followed by twenty-four repayments. In connection to the loan agreement the Company also entered into an Offtake agreement with Real de la Bufa, S.A. de C.V., (“Offtake Agreement Real”) in which the Company will sell all its zinc and lead concentrates for a ninety-month term, starting January 2018.

For the three months ended March 31, 2021, the Company has a balance owing of $18,607 which includes accrued interest of $288 for the current period.

On March 26, 2020, the Company entered into a letter agreement (the "Letter Agreement") with Trafigura which defines the terms under which Trafigura will provide Telson a waiver to certain terms of the loan agreements entered into between the companies.

Under the terms of the Letter Agreement, Telson acknowledges that it is in default of its loan obligations under two loan agreements entered into between Trafigura and Telson as follows:

1) Loan Agreement Campo and,
2) Loan Agreement Real.

Together (the “Loan Agreements”)

Material Terms of the Letter Agreement are as follows:

1) Trafigura has provided their approval and consent to allow Telson to avoid a cause for default by granting Telson a waiver, forgoing defaults under the Loan Agreements, and deferring interests and principal payments until June 30, 2021.
2) This waiver also eliminates the Loan Agreements restriction on Telson for disposition of assets, if necessary, to generate cash to allow Telson to repay its loan obligations to Trafigura.
3) Trafigura agrees to restructure the entire loan debt obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm the projects financial viability, if
   a. the Tahuehueto Project is ramped up or,
   b. Telson successfully raises funding in sufficient amounts to fully fund the final construction and ramp up of the Tahuehueto Project, which funding amount and requirements for effective ramp up, to be independently verified by a mutually acceptable independent engineering consultant.
   c. And subject to the fulfilment of the milestones outlined in section 7 below.
4) Telson agrees to undertake to conduct a process to market assets for potential sale (the "Transaction") in amounts to repay its loan obligations to Trafigura.
5) Telson will transfer all its assets in the Campo Morado Project and its assets in the Tahuehueto Project to a trustee of the Trust Agreement (the “Trust”) in order to secure the full repayment of the Loan Agreements. Should Telson repay the total debt due to Trafigura under the Loan Agreements, the Trust will be terminated, and all assets held within the Trust will return to Telson.
6) Telson undertakes to make every effort to,
   a. Raise funding to repay the full amount of the Loan Agreements and at the same time to,

b. Progress the Transaction and should Telson not obtain sufficient funding to repay the Loan Agreements debt before June 30, 2021, Telson intends to perform the sale of one or more of its project assets, to generate sufficient funds to repay the Loan Agreements.

7) Milestones - Telson will take all reasonable commercial efforts to advance the Transaction, adhering to the time schedule outlined below and will provide Trafigura evidence that this process is advancing to the following schedule.

   a. Before December 31, 2020, Telson shall have received at least three (3) letters of intent from potential buyers regarding the Transaction.

   b. Before March 31, 2021, Telson shall have received at least three (3) binding offers from potential buyers regarding the Transaction.

   c. It is recognized that a breach of the Letter Agreement shall not have occurred should Telson fail to receive the letters of intent and binding offers as contemplated in the above sections as a result of market conditions which fail to generate bona fide interest in the purchase of the assets so long as Telson has in good faith made all commercially reasonable efforts to advance the Transaction and can provide evidence of such efforts.

   d. No later than June 30, 2021, the corresponding sales and purchase agreement shall be executed between Telson and the relevant purchaser if Telson has not either, repaid its loan debt obligations or satisfied the conditions outlined within section 3 above.

8) In partial consideration of the waiver granted by Trafigura, Telson issued to Trafigura 12,000,000 share purchase warrants exercisable into one common share of the Company for each warrant at an exercise price of $0.175 per share over a term of 36 months. If any of the Campo Morado Project or the Tahuehueto Project are sold and Telson repays its total debt under the Loan Agreements within the timeline proposed the share purchase warrants will expire and thereby be cancelled.

The Company is working on restructure the terms of the Trafigura loans which is expected to be completed before the end of Q2-2021. There is no assurance the Company will be successful in reaching new commercial terms on this credit facility.

**Accendo Loan**

On June 16, 2020, the Company signed a term sheet with Accendo Banco, S.A. Insitifucion de Banca Multiple ("Accendo") whereby Accendo will, subject to final due diligence, provide Telson with a US$12 million Medium Term Loan Facility ("MTLF") for the purpose of funding construction at Telson's Tahuehueto mining project and general working capital purposes.

The main terms and conditions of Accendo's MTLF are as follows:

- Loan facility amount - US$12 million
- Repayment term - 3 years with a one-year grace period on principal
- Repayable in 24 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- Telson to issue 15 million bonus warrants at an exercise price of $0.09 per share for a period of 48 months. The bonus warrants are to be issued in lieu of a work fee but subject to cancelation if the loan facility does not close.

The loan facility is subject to final due diligence of Accendo and at December 31, 2020, the Company has received US$0.5 million in anticipation of final funding, however there is no assurance the Company will be successful in reaching a definitive agreement to receive the outstanding balance of the loan facility.

For the three months ended March 31, 2021, the Company has a balance owing of $629 which includes accrued interest of $21 incurred during the current period.

**Right of use assets and right of use liabilities**

The continuity of right of use liabilities for the three months ended March 31, 2021 and the year ended December 31, 2020 are as follows:

| | | Amount |
|---|---|---|
| Balance lease liabilities, December 31, 2019 | $ | 1,927 |
| New leases | | 303 |
| Cancelation of leases | | (160) |
| Lease payments | | (359) |
| Interest expense | | 102 |
| Interest paid | | (102) |
| Foreign exchange adjustment | | (90) |
| Balance lease liabilities, December 31, 2020 | **$** | **1,621** |
| Lease payments | | (97) |
| Interest expense | | 22 |
| Interest paid | | (20) |
| Foreign exchange adjustment | | (36) |
| **Balance, March 31, 2021** | **$** | **1,490** |

## 9.- Capital resources

**Common shares issued**

Period ended March 31, 2021

i. On March 30, 2021, the Company closed non-brokered private placement for gross proceeds of $10.1 million. The Company issued 50,400,000 units (each, a " Unit ") of the Company at a price of $0.20 per Unit for aggregate gross proceeds of $10,080. Each Unit is comprised of one common share (a " Common Share ") and one-half of one common share purchase warrant (each whole such warrant, a " Warrant "). Each Warrant entitles the holder thereof to purchase one additional Common Share of the Company at a price of $0.30 per Common Share within 24 months from March 29, 2021 (the " Closing Date "). All securities issued under the Private Placement are subject to a hold period expiring four months and one day after the Closing Date.

   Escorfin, a related party, acquired 500,000 units.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

In connection with the above private placement, the Company incurred in $478 as finders fees.

ii. During the period ended March 31, 2021, the Company issued 2,903,333 common shares for gross proceeds of $377 in connection with stock options exercised. The fair value of the options exercised was $377 and was transferred from the equity reserves and recorded against share capital.

Period ended March 31, 2020

i. On February 4, 2020, the Company closed the first tranche of a non-brokered private placement offering, whereby gross proceeds of $1,946 were raised by the issuance of 19,458,422 units at a price of $0.10 per unit. Each unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at $0.25 within twenty-four (24) months from closing. The fair value of the warrants was $10.

Escorfin, a related party, acquired 5,853,796 units.

**Other sources of funds**

As at March 31, 2021, 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 outstanding are as follows:

| | Outstanding | | | Exercisable |
|---|---|---|---|---|
| **Expiry date** | **Number of options** | **Exercise price** | **Remaining contractual life (years)** | **Number of options** |
| November 11, 2022 | 2,393,333 | $ 0.71 | 1.62 | 2,393,333 |
| April 16, 2023 | 400,000 | 0.77 | 2.04 | 400,000 |
| April 23, 2023 | 50,000 | 0.72 | 2.06 | 50,000 |
| August 6, 2025 | 100,000 | 0.20 | 4.35 | 66,000 |
| January 29, 2025 | 200,000 | 0.20 | 3.84 | 66,000 |
| February 8, 2025 | 250,000 | 0.20 | 3.86 | 82,500 |
| February 2, 2023 | 300,000 | 0.30 | 1.84 | 99,000 |
| February 25, 2026 | 5,600,000 | 0.30 | 4.91 | 1,848,000 |
| March 16, 2023 | 300,000 | 0.30 | 1.96 | 99,000 |
| **Outstanding, March 31, 2021** | **9,593,333** | | | **5,103,833** |

Share purchase warrants outstanding are as follows:

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

| Outstanding | | | | |
|---|---|---|---|---|
| **Expiry date** | **Granted** | **Exercise price** | | **Remaining contractual life (years)** |
| February 4, 2022 | 9,729,221 | $ | 0.25 | 0.8 |
| May 27, 2022 | 1,163,615 | | 0.25 | 1.2 |
| July 9, 2022 | 6,998,073 | | 0.15 | 1.3 |
| June 30, 2024 | 25,200,000 | | 0.30 | 2.0 |
| October 16, 2023 | 12,000,000 | | 0.18 | 2.5 |
| March 30, 2023 | 15,000,000 | | 0.30 | 3.3 |
| | **70,090,909** | **$** | **0.21** | |

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.

## 10.- Off-balance sheet arrangements

The Company does not utilize off-balance sheet arrangements.

## 11.- Transactions between related parties

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

- Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. (“Escorfin”) with Roberto Guzman as a Director in common.

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management.

a) Compensation of key management personnel

Key management personnel include members of the Board, the Chief Executive Officer and President, Chief Financial Officer and the Vice President, Corporate Development. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

| | | **Three months ended March 31,** | | |
|---|---|---|---|---|
| | | **2021** | | **2020** |
| Short-term benefits | $ | 140 | $ | 195 |
| Share-based compensation | | 222 | | - |
| | $ | 362 | $ | 195 |

b) Related party balances:

As at March 31, 2021, directors and officers or their related companies were owed $129 (December 31, 2020 – $615) included in accounts payable and accrued liabilities mainly in respect to compensation and other labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

a) Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. (“Escorfin”)

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin. Escorfin is a private equity fund that specialize in real estate development, energy innovations, and tourism investment in Mexico.

The following summarizes the transactions and balances owing to Escorfin as at March 31, 2021:

| | | March 31, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| Current portion of the debt | $ | 4,117 | $ | 4,127 |
| Long term portion of the debt | | - | | - |
| **Balance** | **$** | **4,117** | **$** | **4,127** |

During the three months ended March 31, 2021, the Company incurred interest in the amount of $105 (March 31, 2020 – $113) of which $nil was paid (March 31, 2020 – $nil).

## 12.- Subsequent events

**a)** On April 15, 2021, the Company entered into a royalty silver stream agreement with Empress Royalty Corp (“Empress”). Under the terms of the stream agreement, Telson will deliver to Empress silver credits purchased from a bullion bank in an amount equivalent to 100% of the first 1,250,000 ounces of payable silver contained within produced lead and zinc concentrates at Tahuehueto project; thereafter, the Stream percentage silver credit delivery will step down to 20% of the payable silver from produced lead and zinc concentrates. All streaming obligations will fully terminate after 10 years. Empress, to secure the stream advanced Telson an initial US$2 million deposit and the remaining US$3 million deposit will be advanced upon closing the Accendo Banco Medium Term Loan Facility.

**b)** On April 22, 2021, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants in consideration for the debt restructuring. Each bonus warrants are exercisable within a period of four years at a price of $0.475. Telson and Escorfin are working on the legal documentation to restructure the LOC which was originally issued under a Mexican Peso line of credit agreement dated July 22, 2016. As disclosed, Telson has not being able to meet its contractual repayment obligations to Escorfin and therefore, is in default on the line of credit balance in the equivalent amount of approximately US$3.1 million (MXN$64.7 million) including principal and interest. The debt is proposed to be restructured by converting the Mexican Peso owing balance into US dollars at current exchange rates. The new restructured terms include interest at 10% per annum, with a 36-month term of repayment and a 12-month grace period on both principal and interest.

**c)** On April 26, 2021, the Company executed an agreement with Nyrstar to settle the US$4 million variable purchase price obligation under the Campo Morado Agreement with Nyrstar. As consideration it was agreed that the obligation was settled with 14,600,000 common shares of Telson valued at $0.345 per share.

**d)** On May 19, 2021, the Company granted stock options to the newly appointed directors for an aggregate amount of 2,000,000 in accordance with the terms of the Company’s stock option plan. These stock options are exercisable into one common share of the Company at an exercise price of $0.45 per common share and for a period of five years.

## 13.- Proposed transaction

Please refer to debt restructuring under section 8 – Liquidity

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

## 14.- Accounting policies and critical accounting estimates and judgements

Full disclosure of the Company's accounting policies and significant accounting estimates and judgments in accordance with IFRS can be found in note 2 and 3 of its audited consolidated financial statements as at December 31, 2020.

## 15.- Financial Instruments

As at March 31, 2020, the Company's financial instruments consist of cash, marketable securities, amounts receivable, 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. Marketable securities are classified as level one and recorded at fair value using quoted market prices. 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.

## 16.- Other requirements

Outstanding share data

Authorized: Unlimited number of common shares
Number of common shares issued and outstanding as at December 31, 2020: 182,766,619
Number of common shares issued and outstanding as at May 26, 2021: 252,422,454

Stock options as at May 26, 2021:

| | Outstanding | | | Exercisable |
|---|---|---|---|---|
| **Expiry date** | **Number of options** | **Exercise price** | **Remaining contractual life (years)** | **Number of options** |
| November 11, 2022 | 2,343,333 | $ 0.71 | 1.62 | 2,343,333 |
| April 16, 2023 | 400,000 | 0.77 | 2.04 | 400,000 |
| April 23, 2023 | 50,000 | 0.72 | 2.06 | 50,000 |
| August 6, 2025 | 100,000 | 0.20 | 4.35 | 66,000 |
| January 29, 2025 | 200,000 | 0.20 | 3.84 | 66,000 |
| February 8, 2025 | 250,000 | 0.20 | 3.86 | 82,500 |
| February 2, 2023 | 300,000 | 0.30 | 1.84 | 99,000 |
| February 25, 2026 | 5,350,000 | 0.30 | 4.91 | 1,765,500 |
| March 16, 2023 | 300,000 | 0.30 | 1.96 | 99,000 |
| May 19, 2026 | 2,000,000 | 0.45 | 0.13 | 660,000 |
| | **11,293,333** | | | **5,631,333** |

Share purchase warrants outstanding as at May 26, 2021:

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

| Outstanding | | | | |
|---|---|---|---|---|
| **Expiry date** | **Granted** | **Exercise price** | | **Remaining contractual life (years)** |
| February 4, 2022 | 8,229,221 | $ | 0.25 | 0.7 |
| May 27, 2022 | 1,163,615 | | 0.25 | 1.0 |
| July 9, 2022 | 6,645,573 | | 0.15 | 1.1 |
| June 30, 2024 | 25,200,000 | | 0.30 | 1.8 |
| October 16, 2023 | 12,000,000 | | 0.18 | 2.4 |
| March 30, 2023 | 15,000,000 | | 0.30 | 3.1 |
| | **68,238,409** | **$** | **0.21** | |

## 17.- Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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 unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021 and 2020, 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.

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