



## Management's Discussion and Analysis

For the Period Ended November 30, 2014

---

### **Overview**

This Management's Discussion and Analysis (MD&A), dated January 29, 2015, of the financial position and results of operations of Telson Resources Inc. ("Telson") includes its wholly-owned subsidiaries; Samarkand de Mexico S.A. de C.V. ("Samarkand"), Sierra Soleada S.A. de C.V. ("Sierra"), and 531607 BC Ltd.; and its 99% owned subsidiary, Sacramento de la Plata S.A. de C.V. ("Sacramento"), (collectively referred to as the "Company"). The MD&A should be read in conjunction with the condensed interim consolidated financial statements for the period ended November 30, 2014. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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 "Cautionary Notes – Forward-looking Statements" below.)

The Company is in the process of exploring its exploration and evaluation assets (or "mineral properties") and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development, and upon future profitable production.

The Company's certifying officers, based on their knowledge, having exercised reasonable due diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings, and these financial statements together with the other financial information included in these filings. The Board of Directors approves the financial statements and the MD&A and ensures that management has discharged its financial responsibilities. The Board of Directors review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

All amounts are presented in Canadian dollars, which is the Company's functional currency.

### **Cautionary Notes – 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.

### **Summary of Operations**

Telson's principal business activity is the acquisition and exploration of mineral resource properties. The Company, through its Mexican subsidiaries, has an interest in two mineral exploration properties, the Tahuehueto Project, located in Durango State and the Jocuixtita Property located in Sinaloa State. The Company is a reporting issuer in the provinces of British Columbia and Alberta, Canada, and trades on the TSX Venture Exchange under the symbol "TSN" and on the U.S.A OTC under the symbol "SOHFF". Additional information may be obtained from the Company's web site ([www.telsonresources.com](http://www.telsonresources.com)) and SEDAR ([www.sedar.com](http://www.sedar.com)).

At the Tahuehueto Project, Telson has identified at least 12 poly-metallic zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres. Telson has completed more than 49,000 metres of drilling in approximately 254 holes since drilling operations started on the Project in January 2005.

In 2010 the Company's subsidiary Samarkand acquired five mining concessions by staking 2,530 hectares plus six mining concessions covering 1,573 hectares through two Purchase and Option Agreements. All concessions are located in the State of Sinaloa, Mexico. Due to the current market conditions the Company terminated the Option agreements in early July 2013 and returned the six mining concession to the vendors. The company retains the five mining concessions acquired by staking and refers to these concessions as the "Jocuixtita Property".

At November 30, 2014 the Company had a working capital deficiency of \$2,080,259. The current operations of the Company have primarily been funded by the issuance of capital stock, and loans from related parties. The Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future.

During the period ended November 30, 2014, the Company received an additional \$312,500 cash advances from directors. These cash advance are unsecured, non interest-bearing and have no fixed terms of repayment. These funds were used for general and administrative expenses, and to fund exploration work at the Tahuehueto mineral property.

## Selected Quarterly Financial Information:

Fiscal year	2015			2014				2013
Fiscal quarter	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Period end date	Nov 30/14	Aug 31/14	May 31/14	Feb 28/14	Nov 30/13	Aug 31/13	May 31/13	Feb 28/13
Loss for the period	\$(126,590)	\$(269,994)	\$(160,415)	\$(210,293)	\$(221,869)	\$(264,222)	\$(686,434)	\$(424,727)
Loss per share	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.02)
Total assets	\$656,944	\$665,048	\$713,434	\$701,820	\$712,217	\$813,875	\$791,255	\$986,636
Long-term debt	\$179,799	\$181,989	\$185,055	\$183,303	\$177,390	\$173,229	\$177,171	\$176,295

The losses for each of the 2015, 2014, and 2013 fiscal periods are consistent with the level of business activities during each quarter.

The Company grants stock options which can result in significant charges for share-based payments. These charges are may be allocated over four fiscal quarters, depending on vesting terms. However, there can still be significant quarterly variations in the number and value of options granted from one period to the next. In fiscal 2013, the quarterly losses include share-based payments charges totaling \$27,815 compared to \$Nil for the 2014 and 2015 quarterly fiscal periods. There were no options granted in the 2014 and 2015 quarterly fiscal periods and accordingly no share-based payments charges recorded.

The Q1 2014 loss is higher due to the write-down of the \$221,026 acquisition costs associated with the termination of the Jocuixtita option agreement, and the \$120,707 property investigation charges related to the El Realito property. These two items are partially offset by reductions in most other operating expenses.

The Q2 2014 loss decreased due to decreases in salaries, foreign exchange, and exploration costs.

The Q3 2014 loss decreased as a result of decreases in explorations costs, lower regulatory fees, and a recovery of previously expensed business promotion fees. These decreases were partially offset by higher foreign exchange and consulting expenses.

The Q4 2014 loss decreased as a result of further decreases in explorations costs, professional fees, and insurance expenses. Rent declined as the Company was able to sublet another portion of its Vancouver office space. These decreases were partially offset by higher foreign exchange expenses, while office, regulatory, and transfer agent fees all increased in connection with the Company's AGM held in December 2013.

The Q1 2015 loss decreased as a result of further decreases in communications, foreign exchange, explorations costs, professional fees, rent, and insurance expenses. These decreases were partially offset by higher office, regulatory, and consulting fees. Overall, excluding exploration and property investigation expenses, the Q1 2015 expenses decreased 46% compared to the Q1 2014 period as a result of the Company's efforts to cut costs.

The Q2 2015 loss increase is mainly a result of Mexican mineral property concession taxes of approximately \$105,000.

After taking into account the Q2 2015 mineral property concession taxes, the Q3 2015 loss decreased, as a result of the Company moving to a new office, thereby saving on a several overhead costs such as rent, communications, and general office expenses. During the quarter the Company received \$27,500 as a partial payment of an account receivable that was written-off several years ago.

The long-term debt is the Company's estimated reclamation and remediation obligation in connection with environmental and reclamation costs on the Tahuehueto property. The reclamation and remediation obligation was determined in direct relation to the area disturbed by the Company's drilling activities. Drilling activities were suspended at Tahuehueto; accordingly no additional reclamation and remediation charge was recorded during the subsequent quarterly periods. The changes in the asset retirement liability are due to foreign exchange adjustments.

## **Results of Operations**

### **Period ended November 30, 2014**

The Company incurred \$557,084 in exploration, general and administrative expenses during the fiscal 2015 period ended November 30, 2014. Generally, expenses have been consistent with the comparative fiscal 2014 fiscal period, except as noted below. After the exclusion of amortization, exploration expenditures, property investigations, foreign exchange, and the effect of certain expense recoveries, total expenses decreased by \$132,881 in fiscal 2015 compared to the fiscal 2014 period.

Exploration expenditures and evaluation expenses include all costs associated with the exploration and maintenance of the Company's mineral properties. These costs include wages, fuel, camp costs, mineral concession taxes, and associated administrative expenses. A detailed breakdown of these costs is provided in the notes to the November 30, 2014 financial statements. The fiscal 2015 exploration expenditures decreased on the Jocuixtita property as there was no geological work done on the Jocuixtita property, although the Company did incur costs of \$15,157 for Mexican mineral concession taxes. The Tahuehueto property fiscal 2015 exploration expenditures decreased by \$93,878 compared to the 2014 fiscal period as the Company cut exploration costs wherever possible. This included a reduction in the number of employees, however these savings were partially offset by one time employee termination payments. And the Company incurred an additional \$113,774 for Mexican mineral concession taxes on the Tahuehueto property over the comparative 2014 period.

In 2010 the Company's subsidiary Samarkand acquired six mining concessions covering 1,573 hectares through two separate Purchase and Option Agreements. Due to the current market conditions the Company terminated the Option agreements in early July 2013 and returned the six mining concession to the vendors. The company retains the five mining concessions acquired by staking and refers to these concessions as the "Jocuixtita Property". The \$221,026 acquisition costs associated with the terminated option agreement were written-off in the period ended May 31, 2013. There were no similar charges in the comparative fiscal 2015 period.

In April 2013 the Company signed a Letter of Intent (LOI) to enter into an agreement with Hestgold to acquire certain assets including Hestgold's El Realito mineral properties and mining equipment. Under the terms of the LOI, the Company was obligated to make three payments to the vendor of US\$60,000 each over the LOI term of 90 days. During the LOI period the Company carried out additional due diligence on this mineral property and mining equipment. The Company made the first two scheduled payments totaling \$120,707 (US\$120,000) before deciding not to proceed with this project. These payments have been recorded as Property Investigation costs during the period ended May 31, 2013. There were no similar charges in the comparative fiscal 2015 period.

Professional fees include legal, accounting, and audit fees. Legal fees have decreased moderately, while audit and accounting fees have decreased significantly compared to the previous period. These decreased fees are mainly due to the decrease in the volumes of transactions and business activities. In the comparative fiscal 2014 period, accounting fees were higher largely due to the Company's change in accounting policy for exploration expenses which affected the preparation of the 2014 quarterly reports, plus an overall higher volume of transactions compared to fiscal 2015.

Communications expense includes the costs of Telson's news releases, office telephones, fax, mobile phones, web site design and maintenance, web hosting and internet access services. These expenses are mostly consistent with the previous period, except for news releases. There were fewer news releases in the fiscal 2015 period, and this cost decreased accordingly.

Although there was an increase in the rent of the Company's Vancouver office space, this was partially offset by the Company sub-leasing some surplus office space. This rental revenue has been offset to rent expense. In October 2014 the Company moved its office to a new location and is now subletting a smaller office space. The new landlord provides certain amenities that have further reduced other overhead costs. Also, as a result of this move, the Company has written-off the leasehold improvements associated with its old office location.

Salaries and benefits have decreased compared with the fiscal 2014 period. Two employees were terminated during the 2014 fiscal year and the company's CEO agreed to a 40% reduction in salary.

The Company received payments of \$27,500 as a partial payment of an account receivable that had been written-off several years ago.

The Company's Tahuehueto project is located in a remote area, a considerable distance from any commercial and business centres. To facilitate the exploration activities on the Tahuehueto property, the Company maintains an office in Durango City, Durango, Mexico. This office oversees the administration of the exploration activities, including the procurement of services, supplies, and equipment from local vendors. As the office exists solely for the benefit of the exploration activities, the costs of maintaining and operating the office have been included with the Tahuehueto exploration costs. These office and administrative costs include personnel salaries, rent, communications, office supplies, and office equipment. In addition to the Durango office, the Company rented warehouse space primarily for the storage of diamond drill core sample materials extracted from the Tahuehueto property. The sample material, reject samples, and pulps are stored here after delivery from the preparation lab. The warehouse is also used to temporarily store supplies and equipment prior to being shipped to the Tahuehueto project. In August 2013 the Company moved to new premises with an office and warehouse combined with an approximate \$1,000 monthly savings in rent.

The \$42,558 receivables at November 30, 2014 are refundable IVA and GST taxes (value added taxes) due to the Company from the governments of Mexico and Canada. GST refund claims are filed quarterly in Canada, while IVA refund claims are filed monthly in Mexico. The company has successfully received all the refunds claimed in both Canada and Mexico.

Except as may be otherwise indicated, all of the above noted transactions have received regulatory approvals, where required.

## **Resource Properties and Investments**

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

#### **Overview**

Through a 99%-owned Mexican subsidiary, Telson controls 100% of the Tahuehueto project situated in a historic mining district of northwestern Durango State. The 9,081 hectare property covers at least 12 known mineralized zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres.

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

Access to the property is by road, about nine hours from Durango City, or by fixed-wing aircraft to a nearby landing strip. The project site is remote, with only a few small villages in this portion of the Municipality of Tepehuanes. Highway construction initiatives of Mexico's Durango State government provide Telson with the possibility of an alternative and much improved access route for the Tahuehueto project.

#### **Ownership and Access Rights**

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.

Pursuant to share purchase agreements the Company owns, through its wholly-owned Mexican subsidiary Samarkand, 99% of Sacramento, which holds a 100% interest in the Tahuehueto mineral property. Certain core concessions of the property, comprising approximately 1,535 hectares, are subject to a 1.6% net smelter returns royalty.

Pursuant to the share purchase agreements, the Company is obligated to make a final payment of US\$200,000 to the remaining two vendors of the Sacramento shares.

Based upon regional reconnaissance work in and around Tahuehueto, Telson staked additional concessions covering approximately 7,018 hectares to encompass most of the prospective ground in the Tahuehueto district. This staking brings Telson's total Tahuehueto project area to 9,081 hectares.

In May 2006, the Company entered into a Surface Rights Agreement with Comunidad La Bufa, the local

community residents' formal legal entity. The Surface Rights Agreement has an initial term of ten years expiring in May 2016, and is extendable for an additional five years. The agreement covers the core 2,062 original hectares of the project and allows the Company unrestricted access to explore, develop and mine metals within the area covered under the agreement. Sacramento will make annual payments to Comunidad La Bufa over the term of the agreement, at US\$20,000 in the first year with subsequent payments increasing from the previous year's payment by 5% annually. In addition, upon commencement of commercial production the annual payment will be increased by 50% of the previous year's payment.

## Exploration Highlights

### NI 43-101 Preliminary Economic Assessment

On October 4, 2010 Telson announced the results of a Preliminary Economic Assessment ("PEA") prepared by Snowden Mining Consultants for its Tahuehueto Project. Results demonstrate the possibility for economic returns using three-year rolling average gold, silver and base metal prices. Highlights are as follows:

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

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

These PEA numbers demonstrate the potential economic viability of the Tahuehueto Project and were calculated from 2009 mineral resource estimate (see below). Significant upside exploration potential exists within the unexplored portions of the current resource structures, both along strike and down dip, as well as in the many other separate mineralized structures known to occur, but yet unexplored, within the project concessions. Management is confident that with additional exploration and development the projected 11 year mine life outlined in the PEA could be significantly extended.

The PEA was prepared by Snowden in accordance with the requirements of Canadian National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101"). It contemplates a combination of an open pit operation at the El Creston Zone along with underground operations at Cinco de Mayo, El Creston and El Rey, utilizing mechanized low-cost Long Hole Open Stope ("LHOS") mining methods. Metallurgical test work, as previously disclosed, indicates that sulfide flotation methodology will produce separate copper, lead and zinc concentrates.

Snowden recommended that Telson continues with its evaluation of the Tahuehueto Project and progresses towards undertaking a Prefeasibility Study to address the remaining material project uncertainties.

#### Resource estimation recommendations:

- Undertake a study based on the existing data to determine appropriate drill hole spacing and orientation with an aim to increase the confidence in the resource classification to ensure sufficient Measured and Indicated Resource so that upon completion of a Prefeasibility Study these can be converted to Reserves.
- Undertake a drilling program at a spacing and orientation recommended by the drill hole spacing study so that more of the resource can be classified as Measured or Indicated which may then be converted into Reserves after completion of a Prefeasibility Study.

- Review the resource confidence classification criteria for future resource estimates and ensure that all aspects affecting confidence in the resource estimation are considered, including geological understanding, complexity, and continuity, the sample data density and orientation (including sample grades and bulk density data), the data accuracy and precision as established through the QAQC programs, grade continuity including the spatial continuity of mineralization, the quality of the estimates, and the results of the estimation validation.

#### Metallurgical

- Assess the use of alternative depressants and alternative addition rates in the bulk rougher circuit
- Assess alternative depressants in the copper-lead separation stage
- Determine the role of finer primary grinding on zinc selectivity in the bulk rougher flotation stage. That may lead to the use of zinc depressants in the bulk cleaner circuit in an attempt to divert more of the zinc to the zinc concentrate.
- Assess the role of regrinding
- Conduct Work Index testing
- Undertake tests to determine the processing variability between the “fresh” and the “supergene” zones and the effect of randomly comingling of ore types.

#### Other

- Undertake a program of geotechnical logging, testing and analysis so that the potential of an open pit at Cinco de Mayo can be established (which would substantially increase the value of the project), and that better definition of underground and open pit geotechnical design criteria can be achieved
- After completion of the recommended program of data collection, embark on a Prefeasibility Study where construction and operating costs can be defined more accurately so that reserves can be calculated and some trade-off studies undertaken.

#### **NI 43-101 Resource Calculation**

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

#### **2009 Tahuehueto Resource Calculation Highlights**

<b>Measured and Indicated Resources 7,377,000 Tonnes</b>	<b>Inferred Resource 4,868,000 Tonnes</b>
<ul style="list-style-type: none"> <li>• 2.10 g. Au/t            498,000 ounces Au</li> <li>• 34.97 g. Ag/t        8,294,000 ounces Ag</li> <li>• 0.28% Cu            45,339,000 lbs. Cu</li> <li>• 1.06% Pb            172,738,000 lbs. Pb</li> <li>• 2.01% Zn            326,653,000 lbs. Zn</li> </ul>	<ul style="list-style-type: none"> <li>• 1.06 g. Au/t            166,000 ounces Au</li> <li>• 31.77 g. Ag/t        4,971,000 ounces Ag</li> <li>• 0.23% Cu            24,935,000 lbs. Cu</li> <li>• 1.13% Pb            132,417,000 lbs. Pb</li> <li>• 2.26% Zn            242,241,000 lbs. Zn</li> </ul>

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

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

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

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

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Converting resource estimates into economic reserves may be materially affected by the inability to obtain required environmental and other regulatory approval, environmental or operating permits and may also be materially affected by global economic conditions such as the price of gold, silver, copper, lead, zinc, the price of oil and other commodities utilized in the mine production. Unknown geologic or hydrologic conditions or other unknown factors may also materially affect converting resource estimates into reserves.

### **Exploration Activities**

Telson's exploration programs have significantly enhanced the overall potential of the Tahuehueto property. To date Telson has completed more than a cumulative total of 49,000 metres of drilling in approximately 254 drill holes at Tahuehueto to define priority zones occurring within a district-scale epithermal system traced for at least six kilometres at Tahuehueto. The bulk of 2007/2008 drilling was focused on resource definition within five priority zones.

As outlined above, the Company is continuing to collect environmental data collection at the project site and will, when properly funded, continue its exploration and engineering data collection program at Tahuehueto to advance the project through prefeasibility studies, including:

- Geotechnical slope stability studies at the Cinco de Mayo zone to prove the stability of the above cliff face so the zone may be brought into the open pit mining plan.
- Core drilling as required to upgrade the inferred resource into the measured and indicated resources category. Four infill core drill holes have been completed to date, all in the Cinco De Mayo zone.
- Pre-feasibility level engineering design of mine facilities including waste rock and tailing's facilities and infrastructure.

Knight Piésold Ltd was retained by Telson to conduct geotechnical and water/waste management design studies for the Tahuehueto Project. This work is the first step towards completing a prefeasibility study for the Tahuehueto Project as identified in the PEA.

Knight Piésold has presented the company with a technical report for the first phase of work. This report contains a recommended Mine Development Concept ("MDC") for the pre-feasibility base case design based on the PEA and the findings of Knight Piésold's geotechnical site review. This MDC envisions a combined tailings and waste rock dump that integrates the waste rock management and the tailings management. Knight Piesold also provided preliminary recommendations for open pit slopes at the Cinco de Mayo zone, based upon findings of initial field inspections of the cliff faces and rock exposures in and around the Cinco De Mayo Zone.

The Company continues to collect environmental data required to support prefeasibility studies and feasibility studies for future mine planning is ongoing with data continuously being collected.

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

### **Environment and Community**

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

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



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

## **Jocuxtitita Property, Mexico**

### **Ownership and Access Rights**

The Jocuxtitita Property consists of five contiguous mining concessions covering a cumulative area of 2,530 hectares located near to the town of San Ignacio and is approximately 120 km north from the city of Mazatlan, State of Sinaloa, Mexico. The property is road accessible from San Ignacio and is close to all necessary infrastructures for further development. The concessions cover an area that is underlain by favourable geology containing alteration often associated with porphyry copper-gold systems. These concessions are considered as very early stage exploration targets and the Company has conducted early stage geological mapping and limited surface rock sampling.

In early July 2013, due to market conditions, the Company terminated its option agreements with two separate vendors concerning six mining concessions covering 1,573 hectares. The Company still holds 2,530 hectares of mineral properties staked by its subsidiary Samarkand.

### **Jocuxtitita Exploration Activities**

The Company is not planning any exploration of these concessions at this point in time and will re-evaluate these concessions once market conditions and access to capital improves.

### **Other**

The Company will continue attempts to identify and acquire additional high quality exploration projects that will allow continued corporate growth. This search is primarily being conducted in Mexico but the Company would not rule out acquisitions in other jurisdictions depending upon the quality of a potential acquisition opportunity.

## **Corporate, General, and Administrative**

### **Directors and Officers**

At the Company's Annual General Meeting (the "AGM") held on December 19, 2013, shareholders elected the following individuals as directors of the Company:

Ralph Shearing  
Yao Sun  
John Anderson

John Lynch  
Lianxi Zhang

At a subsequent directors meeting, the following director and officer appointments were made:

Audit Committee – Ralph Shearing, John Anderson, and John Lynch  
Human Resources & Compensation Committee – John Lynch and John Anderson  
Advisory Board – Arthur Freeze, Paul Chung and Jaime E. Gonzalez  
President, Secretary, and Chief Executive Officer – Ralph Shearing  
Chief Financial Officer - Donald Crossley  
Vice President Asia Pacific Region – Yao Sun

### **Management Agreements**

In October 2007 the Company entered into an employment contract with Ralph Shearing to provide general management services to the Company for a monthly fee of \$13,333 and was granted 400,000 share purchase options. Mr. Shearing is the CEO and a Director of the Company. In January 2009, in light of the poor junior capital markets and the Company's restricted cash resources, Mr. Shearing agreed to reduce his monthly salary

by 25% to \$10,000 per month. Effective July 1, 2013 Mr. Shearing agreed to further reduce his monthly salary to \$6,000.

On April 1, 2010, the Company entered into an employment contract with Mr. Yu Sun, who is related to Mr. Yao Sun, a Director of the Company. Under the terms of the employment contract, Mr. Yu Sun will assist the Company with its business development plans in China and is paid a salary of \$3,000 per month. This employment agreement was terminated effective July 1, 2013.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. These agreements have received regulatory approval where required.

### **Financing Activities**

The Company initiated a non-brokered private placement of 5,000,000 units of the Company. Each unit is priced at \$0.05 per unit for total gross proceeds of \$250,000. Each unit is comprised of one common share of the Company and one two-year transferable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.10 within two years of its date of issuance. No funds have been applied to this private placement and no units been issued. This transaction is subject to regulatory approval.

During the period ended November 30, 2014, the Company received \$285,000 that was initially classified as subscription proceeds for the above mentioned private placement, along with \$20,000 received in the previous fiscal year. However, the investor subsequently requested that these funds be treated as cash advances, accordingly the Company reallocated this amount to Advances.

At February 28, 2014 the Company had received net cash advances totalling \$192,500 from directors of the Company. In addition to the aforementioned \$285,000, during the period ended November 30, 2014, the Company also received \$27,500 in cash advances from two directors. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

### **Share Capital, Warrants, and Stock Options**

#### **Share Capital**

At January 29, 2015, there have been no changes in the issued share capital from the information provided in the November 30, 2014 financial statements.

#### **Warrants**

At January 29, 2015, there have been no changes in the issued warrants from the information provided in the November 30, 2014 financial statements.

#### **Stock Option Plan**

A 2013 Stock Option Plan (the "Plan") was approved by the shareholders on December 19, 2013, at the Company's annual general meeting. Under the Plan, the Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of 5 years. Vesting is not required but may be set on an individual basis as determined by the board of directors.

No stock options were granted during period ended November 30, 2014. During the period ended November 30, 2014 450,000 options expired.

At January 29, 2015, there have been no changes in the stock options from the information provided in the November 30, 2014 financial statements.

### **Liquidity**

At November 30, 2014, the Company had a working capital deficiency of \$2,080,259.

During the period ended November 30, 2014, the Company received \$285,000 that was initially classified as subscription proceeds for the previously mentioned private placement, along with \$20,000 received in the previous fiscal year. However, the investor subsequently requested that these funds be treated as cash advances, accordingly the Company reallocated this amount to Advances.

At February 28, 2014 the Company had received net cash advances totalling \$192,500 from directors of the Company. In addition to the aforementioned \$285,000, during the period ended November 30, 2014, the Company also received \$27,500 in cash advances from two directors. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

These funds were used for general and administrative expenses, and to fund exploration work and maintenance of both the Tahuehueto and Jocuixtita mineral properties.

This financing will provide funds both for the Company to continue its exploration activities and for general working capital purposes. However the Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the near future. Due to financial market conditions affecting the junior resource public company markets, the Company may not be able to secure additional financing.

### **Investor Relations**

The Company does not have any investor relations agreements. All investor relations activities are currently handled by employees of the Company.

### **Related Party Transactions**

In addition to certain related party transactions mentioned above, the Company had additional significant transactions with related parties, as are summarized below.

The Company's related parties consist of individuals who are executive officers and/or directors of the Company, or are directly related to a director of the Company. Related parties who had transactions with the Company during fiscal periods 2014 and 2015 are as follows:

<u>Name</u>	<u>Nature of transaction</u>
Ralph Shearing, CEO, Director	Salary, cash advances
Donald Crossley, CFO	Professional fees
Yu Sun, related to a director	Salary
John Lynch, Director	Interest on loans
Lianxi Zhang, Director	Interest on loans, cash advances
Yao Sun, Director	Cash advances

The Company incurred the following fees and expenses in connection with compensation of individuals who are key management and directors.

	<u>November 30,</u> <u>2014</u>	<u>November 30,</u> <u>2013</u>
Interest on loans	\$ 30,433	\$ 26,920
Professional fees	42,500	69,700
Salaries and benefits	54,000	82,000
	<u>\$ 126,933</u>	<u>\$ 178,620</u>

Trade and other payables includes \$279,261 (February 28, 2014 - \$205,673) owed to related parties.

The Company has received cash advances, net of repayments, from directors as follows:

	Advances
Balance, February 28, 2013	\$ 227,165
Advances	81,308
Repayments	(115,973)
Balance, February 28, 2014	\$ 192,500
Advances	312,500
2013 share subscriptions reallocated to Advances	20,000
Balance, November 30, 2014	\$ 525,000

These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

The Company has balances owing of \$314,000 for three loans from two directors of the Company (see financial statement Note 10). At November 30, 2014, trade and other payables includes \$112,036 of interest payable with respect to these loans. These loans were due in September, November, and December, 2014; the Company has not received an extension on these loans, nor have the directors requested payment.

The Company has an employment contract with Mr. Ralph Shearing, who is the CEO and a director of the Company. Under the terms of the employment contract, Mr. Shearing is paid a salary of \$10,000 per month. Effective July 1, 2013 Mr. Shearing agreed to reduce his monthly salary to \$6,000. During the period ended November 30, 2014 the Company paid or accrued a salary of \$54,000 (November 30, 2013 - \$82,000) with respect to this employment contract. At November 30, 2014 there is \$85,000 of salaries payable under this agreement.

On April 1, 2010, the Company entered into an employment contract with Mr. Yu Sun, who is related to Mr. Yao Sun, a Director of the Company. Under the terms of the employment contract, Mr. Yu Sun will assist the Company with its business development plans in China and is paid a salary of \$3,000 per month. This employment agreement was terminated effective July 1, 2013. During the period ended November 30, 2014 the Company paid or accrued a salary of \$Nil (May 31, 2013 - \$12,000) with respect to this employment contract. At November 30, 2014 there is \$33,000 of salaries payable under this agreement. This employment agreement was terminated effective July 1, 2013.

The Company paid or accrued professional fees of \$42,500 (November 30, 2013- \$69,700) to Mr. Donald Crossley, an officer of the Company. Mr. Crossley is a chartered accountant and the chief financial officer of the Company, and as such provides the company with general management, administrative, financial, and accounting services. At November 30, 2014 there is \$39,225 of professional fees payable.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties.

## **Risk Factors and Uncertainties**

The Company's ability to generate revenue and profit from its natural resource properties, or any other resource property it may acquire, is dependent upon a number of factors, including, without limitation, the following:

### **Precious and Base Metal Price Fluctuations**

The Company's ability to finance its mineral property acquisition, exploration and eventual development is dependent upon the market price of certain precious and base metals. The price of such metals has fluctuated widely and is affected by numerous economic and political factors, consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and productivity, metal substitutes and stock levels. These fluctuations may result in the Company not receiving an adequate return on invested capital or the investment retaining its value.

### **Operating Hazards and Risks**

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries liability insurance; however any liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

### **Exploration and Development**

There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few exploration properties are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any commercially viable discoveries.

Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes and the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection.

### **Calculation of Reserves and Mineralization and Precious and Base Metal Recovery**

There is a degree of uncertainty attributable to the calculation of reserves and mineralization and corresponding grades being mined or dedicated to future production. In addition, there can be no assurance that precious or other metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

### **Government Regulation**

Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as environmental protection, health, safety and labour; mining law reform; restrictions on production; price controls; tax increases; maintenance of claims; tenure; and expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

### **Environmental Factors**

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving and requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on the Company's properties, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

## **Climate Change**

The Company's current business and exploration activities are not a significant contributor to the greenhouse gases that are commonly believed to be responsible for climate change and a source of adverse weather patterns. The Company does not currently believe climate change will have a significant impact on its future operations. However there is no assurance that future changes in the environment resulting from climate change will not adversely affect the Company's operations.

## **Title to Assets**

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt.

The Company's claims may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

## **Off Balance Sheet Arrangements**

The Company has no off balance sheet arrangements.

## **Changes in Accounting Policies**

There have been no changes to accounting policies from those applied in preparing the consolidated financial statements for the year ended February 28, 2014, except for the adoption of the following IFRS standards effective March 1, 2014:

- IFRS 10, IFRS 12, and IAS 27 – *Exception from Consolidation for “Investment Entities”*
- IAS 32 – *Financial Instruments: Presentation*

The adoption of the above standards did not have an impact on the financial statements.

## **New standards, interpretations and amendments not yet effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are not yet effective as of November 30, 2014 and have not been applied in preparing these condensed interim consolidated financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Effective for annual periods beginning on or after January 1, 2015:

### IFRS 7, Financial Instruments – Disclosure

Amended to require additional disclosures on transition from IAS 39 to IFRS 9.

Effective (proposed) for annual periods beginning on or after January 1, 2018:

### IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

## **Financial Instruments**

### **Financial instrument risk exposure and risk management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

### **Fair values**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, trade and other payables, advances, and loans approximate their fair value because of the short-term nature of these instruments.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

### **Credit risk**

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

### **Interest rate risk**

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates.

## **Foreign currency risk**

The Company is exposed to foreign currency risk on currency fluctuations related to monetary items with a settlement currency other than Canadian dollars. The Company operates in foreign jurisdictions which use both the United States Dollar ("US\$") and the Mexican Peso ("MXN\$"). The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations. The effect of a 1% change in foreign exchange rates would be approximately \$9,000.

## **Commodity price risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## **Capital Risk Management**

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consist of cash on hand, balances with banks and investments in highly liquid instruments. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents and the fair value approximates carrying value.

There have been no changes to the Company's approach to capital management during the period ended November 30, 2014. The Company is not subject to externally imposed capital requirements.