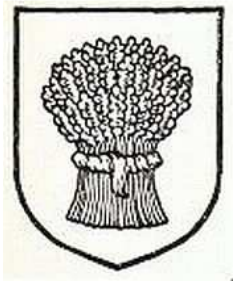
Tuesday, May 22, 2018



HALLGARTEN & COMPANY

Initiation of Coverage

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Telson Mining

(TSX-V: TSN, FSE: SQ82, OTCBB: SOHFF)

Strategy: Long

Key Metrics	
Price (CAD)	$0.83
12-Month Target Price (CAD)	$2.00
Upside to Target	141%
12 mth high-low	$0.28 -$1.00
Market Cap (CAD mn)	$113.71
Shares Outstanding (millions)	137.0
Fully Diluted (millions)	139.9

	FY17	FY18e	FY19e	FY20e
Consensus EPS		n/a	n/a	n/a
Hallgarten EPS (CAD)		$0.090	$0.309	$0.349
Actual EPS (CAD)	-0.03			
P/E	n/a	9.2	2.7	2.4

Telson Mining

Doubling Up on Zinc

+ Telson is one of the few companies to have entered the Zinc mining space with not one but two mines, both located in Mexico
+ A canny purchase of Campo Morado from Nyrstar at a very advantageous price (for Telson) kicked off the production in late 2017
+ Production ramp-up is gaining pace with excellent volumes in 1Q18 and a significant reduction in operating costs from those projected in past studies
+ Expected to declare commercial production at Campo Morado imminently and at Tahuehueto in mid-2019
+ Campo Morado with existing resources could feed the mill at 2500 tons per day for over 12 years and at Tahuehueto current reserves should provide for a 12-year mine life at 1,000 tonnes per day
+ There are another six million tons of resources that could extend the life by three times should Telson be able to convert the resources to reserves
+ Prices for Zinc look undaunted, we expect the price of the metal to move closer to $2 per lb over the next 18 months
+ The company also has meaningful contributions from Lead, Gold, Silver and Copper
× The company will need to pay $16.5mn (the balance of Campo Morado purchase price) in June of 2018
× The payables on the concentrates sold to Trafigura are quite low: for metal contained in the Zinc concentrate the NSR received is around 55% and from the Pb concentrate around 70% to 80%

Another Phoenix from Nyrstar's Ashes

In the annals of mining history it will be written that Nyrstar's big mistake was buying high and selling low. Thus far three companies have appeared on the radar as bottom fishers picking up Nyrstar's leftovers and showing (potentially) what can be achieved from assets that Nyrstar could not make a go of. Two we have highlighted in the recent past are Morumbi (now Ascendant Resources), Great Panther Silver and now Telson Mining (the former Soho Resources) is added to the group.

In this case though the long-time CEO, Ralph Shearing (a geologist) has drafted in a crew of Mexican mining experts to facilitate in the company integrating its $20mn purchase of Nyrstar's Campo Morado asset in Guerrero state in Mexico. This asset had been a key drawcard of the CAD$420mn purchase of Farallon Resources by Nyrstar in December of 2010. With its usual woeful timing Nyrstar sold this asset in June 2017 to Telson just before Zinc was moving into turbocharged mode.

Telson terms itself as being in pre-production at its two projects and advancing towards commercial production at Campo Morado over the coming months and in early 2019 at Tahuehueto. Telson's operations look set to become substantial cash generating engines by 2019.

In this initiation of coverage we intend to review the two operations, the auspicious perspectives for Zinc and we look to the prospects for the future at Telson's operations.

Campo Morado

The Campo Morado project hosts several polymetallic massive sulphide deposits containing zinc, copper, silver, gold and lead mineralization. Five deposits have been extensively drilled: G9, El Largo, Reforma, Naranjo and El Rey. The project is comprised of a previously mined underground multi-metal mine with infrastructure, installations and equipment capable of processing 2,500 tonnes of material per day. Farallon began mining operations at the G9 Mine at Campo Morado in April 2009. After Nyrstar purchased Farallon it continued mining operations at G9 mine with some production from the El Largo deposit until production was suspended in January 2015 and the mine was placed on care and maintenance. Just in time for the Zinc price upturn, we might note.

Telson's Deal with Nystar

Telson's purchase price of the Nyrstar Group subsidiaries that own the Campo Morado Mine was US$20mn of which US$3.5mn has been paid and the balance of US$16.5mn is due to be paid on or before the 13th of June 2018.

Additionally, Nyrstar can potentially receive a variable purchase price royalty on future Zinc production on the first 10 million tons of ore processed by Telson when the price of zinc is at or above US$2,100 per tonne. Telson can potentially repurchase 100% of the Zinc Royalty at any time for US$4mn. There is also a 3% royalty payable to SGM on the NSR value of concentrate sales (before transport costs).

Past History

Earliest production was from a small high-grade silver vein near the third level; in 1903 more massive, gold- and silver-bearing oxide mineralization was found during tunneling activity on the third level. Later in 1903 a 27 short tons per day (stpd) smelter was built at the site. In 1904 production capacity was increased to 56 stpd and in 1907 to 100 stpd. Between 1903 and 1910 production totalled 3,387 kilograms of gold, 125,230 kilograms of silver and 4,157 short tons of lead. A minor part of this came from the Naranjo oxide deposit, which had been discovered in about 1900. The size of a slag heap below the Reforma smelter suggests that approximately 150,000 short tons of mineralized material were mined and direct smelted.

Operations at Reforma mine ceased around the time of the Mexican revolution of 1912, following which sporadic mining took place between 1920 and 1927 and between 1937 and 1940. Most of the remaining high-grade oxide material, along with a small amount of sulphide mineralization plus minor amounts of

oxide material from nearby deposits, was mined during these periods.

Geology

The Campo Morado mine lies in the Teloloapan sub-terrain of the Guerrero terrain near its margin with the Mixteco terrain to the east, the Sierra Madre Occidental to the west, and the Trans-Mexican Neogene Volcanic belt to the north. The Guerrero terrain is an elongate, fault-bounded, composite terrain along the south-western margin of Mexico. It has been proposed that the Guerrero terrain developed as a long-lived island arc isolated from continental Mexico by the Arperos oceanic basin.

During the Late Cretaceous to Paleogene Laramide orogeny, the Guerrero terrain was deformed by folding and thrusting from the south-southwest over the deformed Precambrian to Middle Mesozoic basement rocks of the Sierra Madre Occidental. At the same time the Guerrero terrain was metamorphosed in the sub-greenschist to greenschist facies. Total crustal shortening due to folding and thrust faulting has been estimated to be 60 kilometres.

The VMS deposits found in the Campo Morado project area are hosted in a sequence of felsic to intermediate flows and tuffs and heterolithic fragmental rocks. Most of the deposits are in the upper part of the felsic pile or at the contact with stratigraphically overlying, fine-grained, chemical and clastic sedimentary rocks. Five major lithostratigraphic units have been distinguished that, in order of age, are: the Guerrero ridge intermediate volcanic/ sub-volcanic unit, the Naranjo sedimentary unit, the Campo Morado felsic volcanic unit, La Canita volcanic unit and the Reforma sedimentary unit.

Exploration & Development

Early exploration on the property was undertaken solely by underground drifting at the Reforma mine, where a total of six levels of underground development exist over a vertical distance of 180 metres and a horizontal distance of about 900 metres.

Farallon's exploration activities began at Campo Morado in November 1995, however in November 1998 the exploration activities temporarily ceased due to unfavorable metal prices, in August 2004 exploration activities recommenced and it was in June 2005 that the first intersection of high-grade mineralization was made in the G-9 deposit. Exploration continued on a continuous basis and was augmented by metallurgical test programs, but test plant recovery work in 2006 and 2007. In 2007 the San Augustine decline was drifted on a 4.5 x 5 m basis to facilitate development of the G9 orebodies and a parallel ventilation ramp was excavated.

In April 2007 a primary mine permit was acquired for full mine and mill construction primarily focused at processing G9 ore. In late 2007 mill construction was initiated and commissioning of the mill occurred in September 2008. First zinc concentrate sales occurred in October 2008.

Resource Estimate

The current Campo Morado resources occur in five main mineralized zones, G9, El Largo, Naranjo, Reforma and El Rey. The resource estimate is based on 1,541 surface and underground drill holes and the 33,523 assays obtained from them that intersect and occur within these mineralized zone models.

The tabulation is based on zinc equivalency (ZnEq) that incorporates the contributions of zinc, copper, gold, silver and lead and metal recovery factors achieved at the processing facility on site. The base case at a 5.5% ZnEq cut-off is highlighted in bold typeface.

The effective date for the mineral resource estimates for the five individual main mineralized zones is September 30, 2017. The Resource estimate was prepared by Titley Consulting Ltd., under the guidelines of NI 43-101.

Campo Morado - Resource Estimate

Cut-off - ZnEq %	Zn Eq %	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	2.1
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	3.2
7.0%	8.75	416,000	1.52	148	0.76	1.10	3.78

The Zinc equivalent calculations used:

- Au price = $1150/oz Au metal recovery = 25%
- Ag price = $17/oz Ag metal recovery = 38%
- Cu price = $2.80/lb Cu metal recovery = 68%
- Pb price = $0.90/lb Pb metal recovery = 60%
- Zn price = $1.20/lb Zn metal recovery = 70%

The base case is the 5.5% ZnEq cut-off which in light of the low prices used (particularly Zinc) looks overly conservative. Our base case would be 4% Zn Eq which increases the ore in the equation by over 50% in the Measured and Indicated categories.

The PEA for Campo Morado

The company published a PEA in April of 2018 that had been prepared by the well-known consulting firm, Micon. The key takeaways were:

+ Pre-tax NPV at a 8% discount rate of US$81mn
+ After-tax NPV at a discount rate of 8% of US$65mn
+ Life of mine of 12 years
+ Potential mill feed of 9.7mn tonnes at an average grade of 4.33% zinc grade, 1% Lead grade, 0.78% copper grade, 131.9 g/t of silver and 1.71 g/t of gold
+ Mining rate of 2,500 tpd

At the time of the publication of the PEA the company's management said it was identifying strategies directed towards increasing the NPV. Amongst these were:

✓ Cost reductions resulting from:

- a reduced local workforce
- a change from room and pillar mining to sub-level caving
- a reduction in haulage distance as a result of new egress portal being developed

✓ conducting an aggressive exploration campaign designed to increase the mineral resources at Campo Morado

✓ analyzing leaching processes to increase recoveries of precious metals from concentrate and existing tailings

However we would note that with all the metals (except silver) trading at meaningful to substantial (Zinc) premiums to the prices used in the Zinc equivalency calculations the mine will already have augmented its NPV.

Telson is currently operating the mine and approaching similar output as the former operator with

approximately 50% of the previous workforce. It should be noted that the former owner was focused only on zinc production and was mining three separate mineralized bodies at the same time which required additional personnel, services, equipment and infrastructure. Telson's team are focused on all metals and only mining one mineralized body at a time, so that it can operate with a smaller workforce.

Capital and Operating Costs

The project is a previously operating mine that is being brought back into production. Consequently, the PEA treats the initial capital investment as a sunk cost, and all subsequent investment is considered as sustaining capital expenditure.

Over the LOM period, sustaining capital is shown in the table at the right.

Campo Morado - Sustaining Capital

	LoM USD mns
Development	25.5
Mill/Concentrator	12
Tailings Storage	10
Infrastructure (Other)	10
Social Responsibilities	12
Rehabilitation & Closure	3.2
Total	**72.7**

It is important to note that the PEA used mining milling and G&A costs of US$72 per tonnes (largely derived from the previous operator Nyrstar's historic records, which averaged approximately $89 per tonne during 2014, modified where appropriate to reflect increased throughput and proposed changes in the underground mining method).

Over the LoM period, operating costs are forecast as:

Campo Morado OpEx Estimates

	LoM Average USD/t milled	LoM Total USD mns
Selling Costs	$23.52	$229.00
Royalties	$2.97	$28.90
Mining	$32.78	$319.19
Processing	$24.72	$240.75
G&A	$14.76	$143.74
Total OpEx	$98.75	$961.57

Telson disclosed in recent news that its equivalent costs for mining in Q1 2018 were US $48.5 per tonne, achieved during mine development preparing the El Largo orebody for sublevel caving bulk mining methods. Telson's Q1 2018 mining costs show a 33% reduction to the costs the independent engineers used its recently published a PEA. Telson expects to further reduce its mining costs upon completion of

development and implementing the new mining method on a continuous basis.

The LoM capital and operating costs as discussed in the PEA will most likely be further refined as Telson continues to bring the Campo Morado Project back into production and continues to optimize the various costs at site.

Economic Analysis

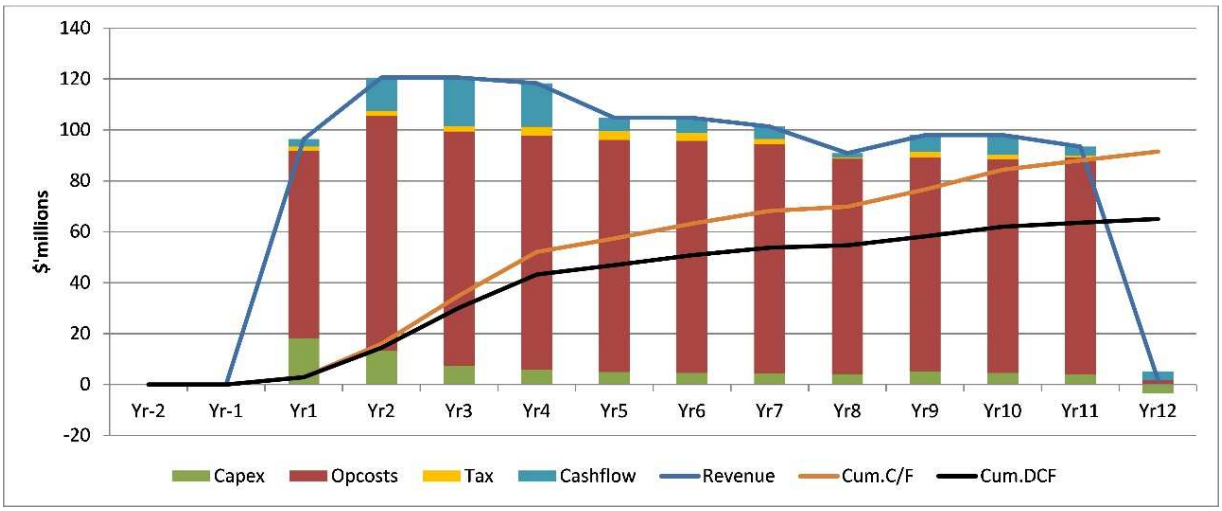
It's interesting to note that different price points for metals were used between the Resource estimate and the economic analysis. The latter used rolling twelve month averages which nevertheless still undershoot the actual levels for Zinc by using $1.34 per lb and Copper by using $2.84 per lb.

The prices used in the cash flow projection are rolling average prices for each metal for the 12-months ended January 2018. These were $1.34 per lb for Zinc, $1.064 per lb of Lead, $2.846 per lb of Copper with Silver at $17.08 per oz and Gold at $1269 per oz. All are lower than the current market price except for Silver.

Since the project has already been constructed, initial capital costs are treated as sunk. However, LoM sustaining capital is estimated at USD$72.7mn, mainly for underground development and expansion of tailings storage capacity.

Total cash costs over the LoM period were estimated to average USD$98.74/t milled. Costs incurred in Mexican pesos were converted at the rate of MXN 18.75/USD (currently the rate is 18.62).

Annual base case cash flows and unit costs on a zinc equivalent basis are presented in the chart below.



At an annual discount rate of 8%, the discounted cash flow evaluates to a net present value (NPV) of USD$65mn post-tax. At an annual discount rate of 8%, the discounted cash flow evaluates to an NPV of USD$81mn before tax.

Owing to the absence of pre-production capital expenditures in the forecast period, no internal rate of return (IRR) or payback period can be determined.

Offtake Agreement

In mid-September of 2017 Telson announced to the markets that it had come to an agreement with Trafigura the main features of which were:

- an executed loan facility of US$5 million for working capital
- Full funding enables restart
- Full US$5 million has been received into Telson´s bank account
- The offtake agreements are for 100% production of zinc and lead concentrates with a minimum fixed tonnage, starting delivery in October 2017 and ongoing until December 2021

This funding enabled the restart of mining and mineral processing at Campo Morado mine. It is worth noting that Nyrstar these days is in effect a satellite of the Trafigura group. Three-year term with a six-month grace period followed with 30 repayment installments. The loan facility matures in September 2020 and bears interest at a rate equal to 3-month LIBOR+5%. There are no hedging conditions and no equity-based payments

Under the offtake agreements Telson will sell 100% of the lead and zinc concentrate produced at the Campo Morado Mine from the commencement of commercial production estimated until December 2021. The offtake has a 51-month term ending December 2021 for Campo Morado Pb/Znconcentrate production with a fixed minimum tonnage to be despatched during the offtake term. While pricing was not disclosed the company reassured investors that the deal has “very competitive industry payable metal terms at LME and LBMA Spot prices“with prompt payment terms of five days after delivery.

Initial Production

Telson restarted mining operations in September 2017 under a preproduction plan and on a trial basis at 1,400 tonnes per day. Production of zinc concentrates recommenced in October 2017 and Telson intends to advance towards commercial production at full capacity of approximately 2,500 tonnes per day during 2018.

We now have production results in for two quarters of operations at Campo Morado. In September the company was mining underground on Campo Morado at approximately 1500 tonnes per day and began adding additional equipment and personnel to increase underground mining production with a goal of 2,000 tonnes, or more, per day within 6 to 12 months as milling techniques and recoveries are perfected. The aim is to subsequently increase production to the ultimate capability of the mill which is currently rated at 2,500 tonnes per day.

Pre-production test milling operations started on October 14, 2017. In the December quarter the mill

processed 106,655 tonnes of mineralized development material over 71 operational days averaging 1,502 tonnes per day reaching 96% operational efficiency on a 24/7 operation. As a result the mine produced:

- 5,021 tonnes of zinc concentrate averaging 44% zinc, 1.04 g/t Au and 502 g/t Ag
- Shipped for sale approximately 4,530 tonnes zinc and 578 tonnes of lead concentrate representing approximately 73% of total 2017 concentrate production

These concentrates were sent to Trafigura's Manzanillo warehouse. Preliminary payment totaling approximately USD$4.8mn was received by Telson for shipped concentrates equating to approximately 90% of final estimated sale price.

Current average metal recoveries achieved for the produced pre-production concentrates outlined above are as follows: 58.2% zinc, 14.8% copper, 9.2% lead, 5.9% gold, 22.9% silver recovered within the zinc concentrate and 28.6% lead, 12.8% copper, 3.4% zinc, 9.6% gold, 9.2% silver recovered within the lead concentrate. The top recoveries over the period reported were over 75% zinc and 60% lead.

Mining and milling pre-production operations have continued from January 1, 2018 and currently remain in continuous 24/7 operations.

In 1Q18 the mill processed 148,676 tonnes of mineralized development material with an average head grade of 3.65% Zinc, 0.41% Copper, 0.90% Lead, 1.14 g/t Gold, 108 g/t Silver. From this was produced:

- 8,206 wet tonnes of Zinc concentrate, with average grades of 45.16% Zn, 1.26% Cu, 1.94% Pb, 436 g/t Ag, 2.08 g/t Au
- 1,365 wet tonnes of Lead concentrate, with average grades of 24.94% Pb, 8.29% Zn, 2.11% Cu, 616 g/t Ag, 8.92 g/t Au
- 82.22 wet tonnes of copper concentrate grading 9.87% Cu, 1,753 g/t Ag, 11.88 g/t Au, 10.54% Pb, 5.76% Zn

It should be noted that Copper concentrate was only produced for two weeks of the period.

In its production announcement that company estimated 100% cash selling value for 7,297.27 tonnes of shipped zinc concentrates as US$6.9mn and for 1,157.44 tonnes of shipped Lead concentrates as US$785,670, totaling US $7.7mn.

Total mineralized material mined was 113,477 tonnes during the quarter while the mill throughput processing rate at Campo Morado increased from 1,500 tpd in January to 1,900+ tpd per day in early April 2018.

Underground development totaled 1,225 meters with 896m in mineralized material and 329 m in waste. The company is nearing the end of the El Largo Zone development phase in preparation of initiating bulk

mining methods within the next few weeks. The improving efficiencies at the mill resulted in increasing zinc concentrate grades to an average of 43.54% zinc and lead concentrate grades to an average of 34.88% lead during the first two weeks of April 2018. During the same two-week period, there were improved zinc metal recoveries, averaging 72.7% zinc into the zinc concentrates.

Going Forward

With the initiation of bulk mining methods, within the next several weeks, the mine will be able to deliver a more consistent mineralized mill feed, without excess dilution of mining development material from various areas within the large El Largo Zone.

Processing mineralized mill feed of more consistent grade and quality, containing less dilution, should allow Telson to further improve concentrate grades and recoveries. The company expects to receive three low-profile trucks by the end of May. These vehicles, and bulk mining methods, will permit the ramp up of pre-production towards the 2,500 tpd capacity of the mill by October and further reduce direct site costs of approximately US$48.50 per tonne.

It is very important to note that the initial production experience is throwing up much lower OpEx than expected. These current direct site costs are approximately 33% lower than the estimated direct site costs of US$72.26 per tonne used for the same categories in the recently published PEA.

The company expects production to be closer to 650,000 tonnes per annum for 2018 and closer to 750,000 tpa for 2019.

The recoveries thus far have been from development ore. The team are developing the faces to start the sublevel caving in the next three months and management is confident that when the company starts processing more stable material from the orebodies the recoveries will increase to around 73% Zn, 60% Pb, 35-45% Ag, and 30-40% Au. Declaration of commercial production is imminent.

An Added Bonus - Precious Metals Tailings

The Campo Morado tailings (pictured on the following page) have a high precious metals content that may, in the future, be reprocessed if an economically viable method for precious metals recovery is developed.

The historic resource estimate (non-NI43-101 compliant) for the tailings derived from previous operators daily metallurgical balance reporting is shown below and gives a good idea of the potential of this otherwise ignored “asset” to contribute meaningfully to revenues.

Campo Morado Tailings

Tonnes	Au g/t	Ag g/t	Cu %	Au ozs	Ag ozs	AuEq
3,290,622	1.57	94	0.3	165,662	9,954,590	298,161

Subject to further testwork, leach recovery of copper, gold and silver from reprocessing existing tailings may be possible.

Tahuehueto

For a very long time the Tahuehueto Project was the main target at Telson. While it is currently in pre-production the deal with Campo Morado has somewhat stolen the limelight.

The Tahuehueto Project is located in north-western Durango State and lies within the prolific Sierra Madre Mineral Belt. The project consists of 28 mining concessions grouped into five non-contiguous blocks that total approximately 7,492 hectares.

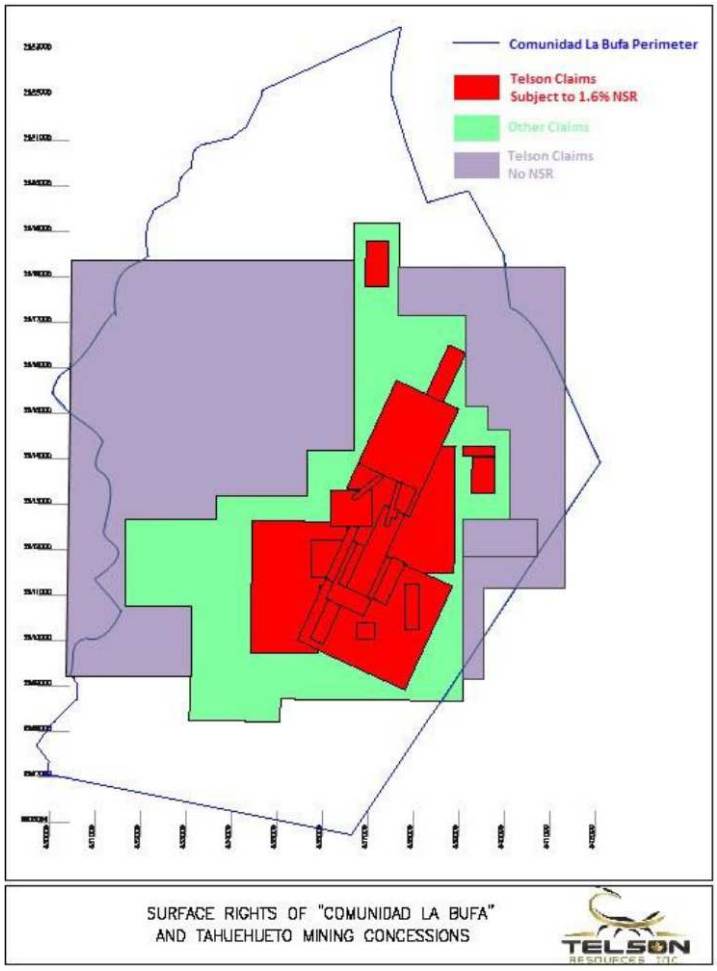
Tahuehueto is located in a zone which hosts a series of historic and producing mines and most of Mexico's active exploration and development projects. The project is situated about 25 km north of the Topia polymetallic-silver mine, 65 km northwest of the La Cienega gold, silver, base metal mine, 85 km southwest of the Guanacevi silver district, 280 km southeast of the Palmarejo silver and gold mine and 150 km northwest of the San Dimas mining district, most notable for the Tayoltita silver and gold mine.

History

The first recorded exploration was in 1904 when an English company began development on the Veta 20-93 (in the El Creston zone) at the Sacramento de la Plata mine. The actual starting date of the limited production is not recorded.

Compañía Minera Sacramento de la Plata, a predecessor company of Telson's subsidiary - Real de la Bufa, was founded in 1966 and developed over 700m of underground workings on the El Rey and El Creston structures in 1971. A 50tpd plant was constructed to process the mined material and was operated in the 1970s. Concentrates from the mill were flown to Santiago Papasquiaro and then driven to the smelter at Torréon. Total production from Tahuehueto appears to have been limited.

A report on the deposit from 1998 noted that 5,900m of underground development and exploration workings at El Creston, Cinco de Mayo, and El Rey had been completed by previous operators, among which were Asarco, Peñoles, Consejo de Recursos Minerales, and DOWA Mining Company.



In 1997, Telson (formerly Soho) picked up the property and began work with the first resource being published in 2008. Another resource estimate in 2009 nearly doubled the original estimates from the year before. Intense work followed over the years of fluctuating fortunes for Zinc with a PFS finally appearing in 2016.

From 1996 to present day, Telson has conducted surface and underground sampling and mapping, drilled 248 holes totaling 47,276m into several mineralized bodies, and conducted metallurgical testing, as well as geophysics and other geological studies.

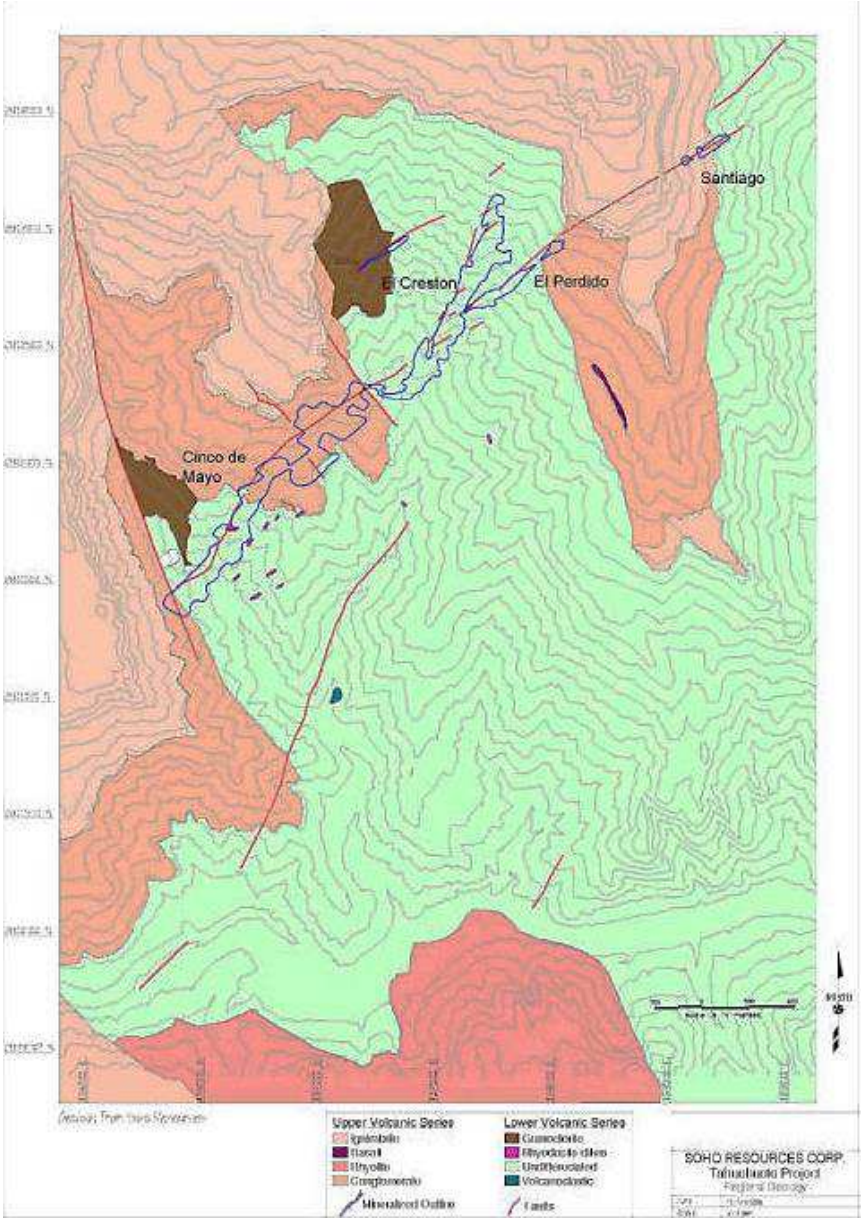
Over its period of tenure to the PFS stage Telson had spent around $24.4mn in work on the property.

This finally bore fruit when mining commenced in the second half of 2017 and this is proceeding at

volumes of 100tpd to 150tpd utilizing a toll mill for processing and the project has entered a construction phase with a timeline to be producing on site in its own mineral processing plant capable of milling at least 1,000 tonnes per day towards the end of 2018.

Geology

The property contains four main rock types: lower volcanic series andesite, granodiorite stocks, polymictic conglomerate, and felsic ash-flow tuffs of the upper volcanic series. The majority of the project area is underlain by andesite flows, tuffs, and volcaniclastic rocks of the lower volcanic series.



A series of northeast-striking veins that formed within a series of normal faults with subordinate left-lateral displacement hosts the Mineral Resources.

The principal, through-going veins have a general strike of 045° to 060° and dip between 65° and 80° to the southeast. This vein set includes Cinco de Mayo, El Catorce, and El Perdido and extends northeastward to Santiago. Other veins with the same orientation include El Rey, Dolores, Tahuehueto, Texcalama, El Espinal, and Tres de Mayo. Within the core area of the Mineral Resources, the El Creston series of veins, striking about 035° and dipping 60° to 80° east, formed in a strongly dilatant zone between the through-going El Perdido and El Rey structures.

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

Polymetallic Ag-Au mineralization comprising pyrite-galena-sphalerite represents the volumetrically most apparent mineralization. Much of this mineralization occurs as sulfide lodes or as breccia infill. Bulk lower grade mineralization occurs as fine grained Au and Ag sulfosalts deposited within base metal sulfides as part of the main polymetallic mineralization, rising to higher grade Ag with increased base metal contents.

The highest Ag-Au grades locally occur in the absence of Cu-Pb-Zn in ores described as the epithermal end member of polymetallic Ag-Au mineralization which is strongly structurally controlled.

Above can be seen a view of the El Creston/Perdido area.

Breccias are an integral part of the Tahuehueto hydrothermal system and display several genetic styles. The uppermost portions of the mineralized structures are oxidized. In the oxide zone, mineralization consists of malachite, azurite, chalcocite, covellite, limonite, and hematite. The depth of the oxide-sulfide interface varies considerably, but is generally less than 100m.

Sulfide mineralization lies below the oxidized zone and consists of sphalerite, galena, chalcopyrite, tennantite, tetrahedrite, and probably electrum. Gangue minerals are quartz, pyrite, chlorite, sericite,

and calcite.

A 2007 study observed supergene enrichment in both mine workings and in drill hole DDH07 081 from the upper part of the El Creston zone. The oxide-sulfide interface occurs at about 37m in depth in that hole. The author stated that silver and zinc were leached from the oxide zone, with silver and copper being enriched below the base of oxidation. Silver increases from 39.1 g/t Ag between 34.95 to 37m to 270 g/t Ag at 37 to 40.05m in the hole. Gold is concentrated at the base of the zone of oxidation.

The Preliminary Feasibility Study

The NI 43-101 PFS prepared by Metals Mining Consultants of Highlands Ranch, Colorado dates from December 2016 was based on:

- a 550tpd operation
- pre-tax Net Present Value, using an 8% discount, of US$138mn and
- a post-tax Net Present Value using an 8% discount, of US$77mn

It is useful to note that this PFS used base case metal price forecasts of $0.87/lb for lead, $0.92/lb for zinc, $2.65/lb for copper, $1,180/oz for gold and $16.70/oz for silver. The Zinc, Lead and Copper prices are now obviously ancient history.

The main metrics resulting from the PFS were:

- Post-tax NPV (using an 8% discount rate) of $70mn, with IRR of 33%
- Payback period of three years
- Pre-tax NPV, using an 8% discount, of $126mn, with an IRR of 50%
- Average annual EBITDA of US$16.6mn per year and $334mn over the life of the Project.
- LoM of 21 years, with average annual production of 16,000 ozs of gold, 177,000 ozs of silver, 991,000 lbs of copper, 3,755,000 lbs of lead and 7,558,000 lbs of Zinc
- Underground mining operations with mining rates of 790 tpd, primarily using the cut-and-fill mining method
- Pre-production capital costs of $32.2mn, including $17.2mn surface site development)including mill construction) and $14.9mn of mining equipment and preliminary underground development

The OpEx breakdown in the PFS is shown at right:

Talhuehueto OpEx

Operation Unit Costs	Mineralised $/t
Mining	$21.62
Processing	$30.80
G&A	$6.82
Total Unit OPEX	$59.24
Smelter	$23.45
Freight & Marketing	$4.80
Royalties	$2.81
Total Unit Cost	$90.30

Mine Plan – PFS and in Actuality

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

Now that pre-production is functioning, the ore produced from Tahuehueto is currently being processed at the Atocha Mill. In July 2017, the company has reached a mineral processing agreement with Compañia Minera de Atocha, the owner of the Atocha Mill, for processing approximately 21,000 of Tahuehueto ore during 2017.

Telson acquired a sulphide flotation mineral processing facility to increase the processing capacity to 1,000tpd, and anticipates starting production in the first quarter of 2018.

Ore from the mine will be sent to the grinding section in 20-tonne capacity dump trucks. The coarse ore will be fed to a primary jaw crusher followed by a secondary crusher. The crushed dry ore will be fed to a ball mill then on to the flotation process.

Gravimetric concentration will be applied to separate heavy metals from the concentrates. The tailings from the gravimetric concentrator will be forwarded to the flotation section, which comprises three flotation circuits producing separate lead, copper and zinc concentrates.

The concentrate output will then be trucked in 30-tonne trucks, (for the term of Telson's offtake commitment) to Trafigura's warehousein the port of Manzanillo in Colima.

With the mill under construction being capable of processing 1,000 tpd at Tahuehueto the projected throughput is fully 25% higher than mooted in the PFS. Telson is therefore working on an updated PFS to reflect the improved economics of such an operation.

Resource

The PFS from 2016 also included an updated resource estimate and a Reserve. Interestingly the resource used different price points for the key metals namely,

Gold	$/oz	1,200
Silver	$/oz	20.00
Copper	$/lb	3.10
Lead	$/lb	0.90
Zinc	$/lb	0.97

While the Copper estimate is in the current ballpark and the Silver too high the rest are significantly under the current reigning levels, particularly in the case of Tahuehueto's key metals, Gold and Zinc.

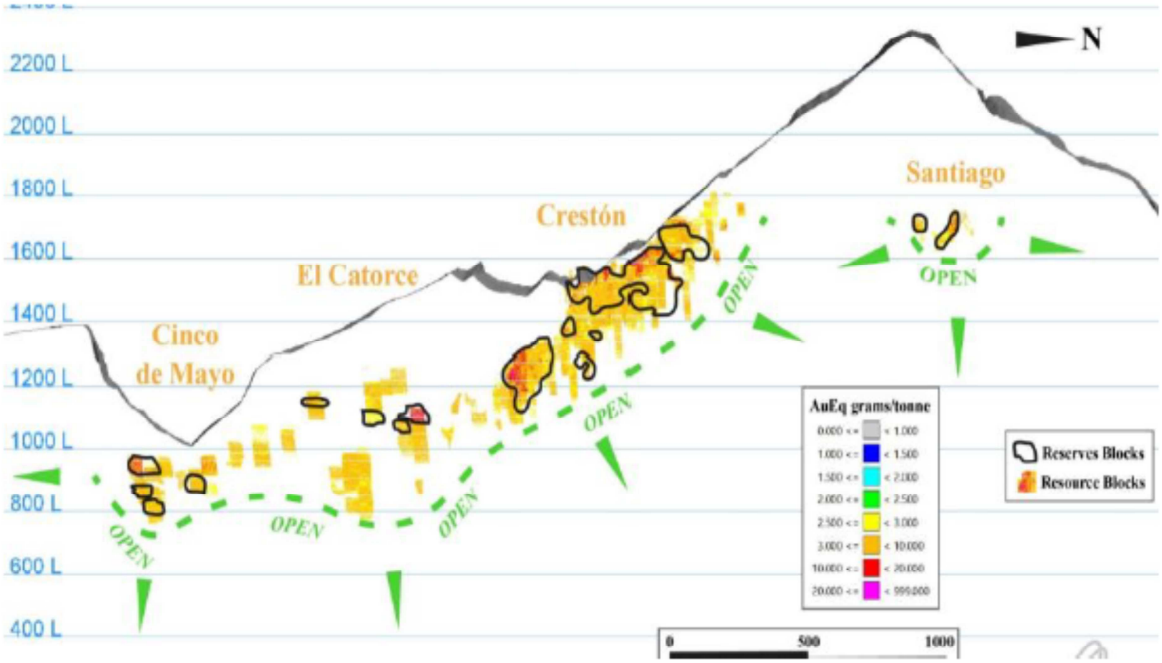
Talhuehueto Reserves

Classification	Tonnes mns	Au g/t	Au ozs	Ag g/t	Ag ozs	Cu%	Cu (mns llbs)	Pb%	Pb (mns llbs)	Zn%	Zn (mns llbs)
Probable Reserves	3.264	3.4	356,000	41.8	4,387,000	0.35	25.028	1.19	85.762	2.24	161.314

Talhuehueto Resource

Classification	Tonnes mns	Au g/t	Au ozs	Ag g/t	Ag ozs	Cu %	Cu (mns llbs)	Pb %	Pb (mns llbs)	Zn %	Zn (mns llbs)
Measured	2.771	2.77	247,000	44.7	3,982,000	0.31	18.914	1.27	77.827	2.29	139.821
Indicated	3.343	2.23	240,000	41.26	4,435,000	0.3	22.466	1.15	84.455	2.04	155.687
Total M&I	**6.114**	**2.48**	**487,000**	**42.82**	**8,417,000**	**0.31**	**41.380**	**1.2**	**162.282**	**2.15**	**295.508**
Inferred	3.501	1.31	147,000	37.59	4,230,000	0.27	20.469	1.34	103.080	2.44	188.409

Below can be seen a cross-section of the Tahuehueto deposit showing it open in various directions.



Offtake Agreement

As with Campo Morado, Telson has an offtake agreement with Trafigura that was executed in late October 2017. It consisted of a loan facility with Trafigura for up to US$15mn for mine construction. The funding enabled the construction of the mineral processing facility, related mining facilities, plus infrastructure and underground development at Tahuehueto. The funds were made available to Telson in three tranches depending on the progress of development and certain conditions with first tranche within 30 days of signing formal agreements.

The Offtake Terms are for 100% production of zinc and lead concentrates with a minimum fixed tonnage, starting delivery in January 2018 and ongoing until December 2022

The deal involves the sale of 100% of the lead and zinc concentrate produced at the Tahuehueto Mine from January 1st 2018 to December 31st 2022. Trafigura provided Telson with a credit facility of US$15 million upon signing formal agreements, thereby securing the bulk of the capital requirements to construct and operate an ongoing 1,000 tonne per day mining operation at Tahuehueto.

Production

In mid-February, the company announced the (pre-) production statistics for the Tahuehueto operation for the period it had operated in 2017. The highlights of which were:

- Some 22,662 tonnes ore mined during July – Dec 31, 2017 from El Creston Zone averaging of 132 tpd
- Some 14,377 tonnes of Tahuehueto ore was oll milled during 2017
- Average Head Grade of ore milled in 2017 was 6.94 g/t gold, 84.36 g/t silver, 5.29% zinc, 2.64% lead
- Average recoveries of ore processed in 2017 - 82.4% gold, 87.8% silver, 79.4% lead and 74.4% zinc.
- Produced 666 tonnes of lead concentrate and 1,130 tonnes of zinc concentrate in 2017
- 643 tonnes lead and 1,039 tonnes zinc concentrates sold 100% for total cash proceeds of approximately USD $5.24mn

The pre-production mining commenced during July 2017 with toll milling operations starting during August 2017. Mining and toll milling continued through to mid-December 2017 when operations were shut down during Christmas holidays. Mining and toll milling resumed in January 2018.

Then in recent days the company has announced the first quarter production metrics for Tahuehueto

- Some 9,503 tonnes of Tahuehueto ore was toll-milled at the Atocha Processing Plant during first three months of the year
- Average Head Grade of ore milled in Q1 2018 was 5.44 g/t gold, 61.59 g/t silver, 4.54% zinc, 2.25% lead.
- Average payable recoveries of ore processed in Q1 2018 – 79.4% gold, 85.7% silver, 84.4% lead, 76.4% zinc.
- Produced 360.29 tonnes of Lead concentrate and 712.71 tonnes of Zinc concentrate in the quarter
- Shipped and invoiced for sale 348 tonnes lead and 548 tonnes zinc concentrates during Q1 with estimated unit value of US $5,825 per tonne for lead concentrate and US$1,320 for Zinc concentrate as calculated under Offtake sale terms with Trafigura

Pre-production toll milling from Tahuehueto processed 9,503 tons of ore at the Atocha Mill during the first quarter of 2018 for an average over the Q1 period of 106 tonnes per day.

Mining and milling daily average preproduction rate reduced by approximately 20% during Q1 from the previous 2017 preproduction as the Company directed production equipment from the preproduction mining to commence its Tahuehueto mine construction phase. Additional mining equipment has been sourced and purchased and when delivered do to the mine site the Company expects to increase its daily preproduction rate to former levels.

The estimated total cash sale value of the lead and zinc concentrates produced during 1Q18 was approximately US $3,039,487 based upon those concentrates delivered to Trafigura and invoiced to date.

On the subject of recoveries it should be noted that Ag is not paid on the zinc concentrate, Zinc is not paid on the Lead concentrate and vice versa. Payable recoveries are: Au 80%, Ag 76%, Pb 85%, Zn 76%.

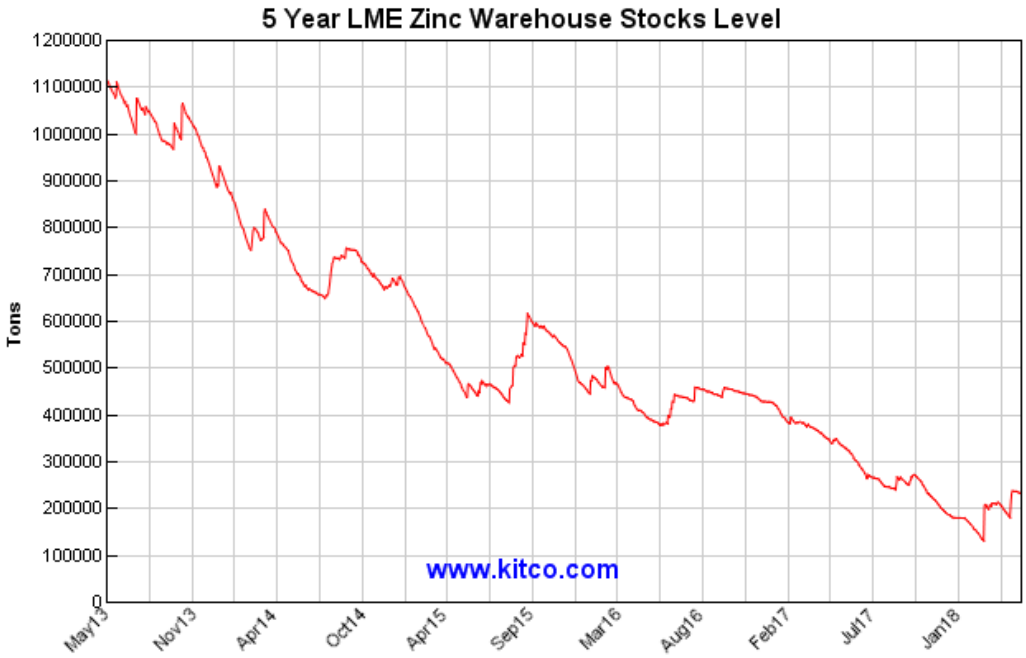
The company expects, during 2018, to have had completed construction of the 1,000 tpd mill on site so that 2019 throughput should be around 350,000 tpa.

Zinc – Breaking Through

Our year-end 2017 target for Zinc was $1.50 per lb and yet that price was reached four months ahead of time. As Zinc busted through each key level it paused and market participants held their breaths to see if there would be a serious pullback and it just did not happen.

The tailwind remains strong and consistent and nothing has effectively been done to plug the Zinc supply gap and the slow reactivation of global economies is underpinning the demand side.

The chart below shows the diabolical state of LME warehouse stocks. This, of course, is eye candy to Zinc producers as it is unrelievedly downwards.



Substantial Zinc mines have run to the end of their mine lives without little more than small- and mid-sized mines being reopened, up until now, to deal with this dilemma. Campo Morado is a good example of a reopening, while Tahuehueto represents a small addition of new supply and in this it is a relative rarity.

After falling sharply in 2016, the ILZSG forecast that world zinc mine production would to increase by 1.8% to 13 million tonnes in 2017 and by 6% to 13.78 million tonnes in 2018.

The rise in 2017 was attributed to higher output in Eritrea due to increased output at the Bisha mine, India as a consequence of the completion of waste stripping work at Rampura Agucha's underground operation, and in Peru due to higher zinc production at the Antamina mine.

In 2018, the ILZSG predicted that Australian output would benefit from the opening of MMG's Dugald River mine in late 2017. Similarly South African production would be boosted by the commissioning of Vedanta's Gamsberg operation which is scheduled to commence production during the first half of 2018. Increases in Finland and Greece (Olympias of Eldorado Gold) are expected by the ILZSG to add to European output with higher production also anticipated in China, Cuba and the United States.

Then there is New Century, the reboot of the old Century mine in Queensland. In January the new owners outlined that the mine would restart in less than seven months. It plans to ramp up operations

to produce 500,000 tonnes per annum of zinc concentrate over an initial 6.3-year mine life, making the Century mine the fifth leading producer of zinc in the world.

ANNUAL DATA

	2013	2014	2015	2016	2017
Mine Production*					
Europe	970	989	970	1001	1033
Canada	419	353	292	322	341
Mexico	643	660	695	661	677
Peru	1351	1319	1422	1337	1473
United States	777	831	825	798	783
China	4607	5065	5068	5145	5192
India	793	706	821	636	850
Kazakhstan	417	378	369	366	375
Australia	1524	1566	1578	859	747
Other Countries	1539	1627	1571	1645	1758
World Ex China Total	**8432**	**8428**	**8542**	**7624**	**8038**
World Total	**13039**	**13493**	**13610**	**12769**	**13230**

Even without a rollicking demand scenario (and our view is very muted) Zinc has a supply crisis evolving around it that is not solved by recycling or by the meagre trickle of mine reactivations currently being achieved or mooted.

At this point we feel that Zinc will break through $2 per lb at some time in 2018.

Earnings Outlook

We have created a tentative earnings model for Telson's first two full years of operations (i.e. FY18 and FY19). One could extrapolate this forward as FY19 will essentially be repeated in later years (though price and grade dependent).

Points to note:

- In estimating revenues we used PFS volume projection adjusted for enhanced mill capacities (at THH for example)
- We used the Hallgarten average price projections for the various metals
- We used current recoveries for the metals
- For royalties we used the rate from CM for both (which are similar anyway)

- For CM operating costs we used the PEA numbers lowered by 33% across the board as per the recent production release
- For THH costs we used the Opex numbers in the PFS
- We used the GSA cost per tonne of CM for both projects throughput

The result was the following outcome:

Telson Mining P&L

CAD mns - December FY end

	FY20e	FY19e	FY18e	FY17
Revenues	**216.411**	**207.137**	**73.291**	**0**
Campo Morado	110.239	105.514	62.991	
Tahuehueto	106.173	101.622	10.300	
Cost of Mining/Milling/Tolling	**102.883**	**101.957**	**34.107**	**0**
Campo Morado	33.870	33.870	26.897	
Tahuehueto	69.012	68.087	7.210	
Gross Profit	113.529	105.179	39.184	0
GSA	11.933	11.933	7.262	3.283
Depreciation	14.000	14.000	8.000	0.000
Exploration	7.000	10.000	5.000	0.000
Total Expenses	135.816	137.891	54.369	3.283
Operating Result	80.595	69.246	18.922	-3.283
Finance Costs	0.700	1.500	2.300	-0.040
Net Forex effect				-0.210
Royalties	2.401	2.401	1.461	0.000
Pre-tax Result	77.494	65.345	15.160	-3.533
Tax	17.049	14.376	1.061	0.000
Post-tax result	60.445	50.969	14.099	-3.533
Shares on issue	173.1	164.9	157.0	102.2
EPS	0.349	0.309	0.090	-0.035

Revenues have been starting to pile up. Of the total 7,034 tonnes of lead and zinc concentrate produced at Campo Morado during 2017, Telson shipped approximately 5,108 tonnes of lead and zinc concentrates and received a payment of US$4.8mn, representing 90% of company-assayed metal content under the terms of its offtake agreement. Final invoicing for the remaining 10% was to be rendered upon final closing of the sale by comparing assay results obtained by Telson, the buyer and an independent third-party assayer.

It is interesting to consider the curious (dare we say, bizarre) Canadian accounting rules of pre-production revenues. Telson generated approximately US$10.74mn or CAD$13.75mn (using 1.28 exchange rate from US to CAD) in 1Q18 which is very impressive considering that the company is still in the development stage. However this is not small change and yet it will not be reported as a topline revenue due to the revenues being deemed to be "pre-production" in nature.

Likewise the company notes that cash sales "should not be equated with revenues", as until commercial production is achieved at Tahuehueto, which is not expected until early 2019 when Telson completes construction of its proposed onsite mineral processing facility, any proceeds from the sale of concentrates are considered under IFRS to be applied as an offset.

Finally we would note that despite our bullish Zinc stance and flat gold outlook, revenues in FY19 for gold at Tahuehueto in our model still exceed the Zinc revenues.

Board and Management

Jose Antonio Berlanga, CEO and a director, is a mining engineer and a metallurgist with over 42 years of experience in the acquisition, evaluation, design, planning, engineering, construction and operation of mining and metallurgical units. Some of the projects in which he has been involved include: El Oro in the State of Mexico, La Negra in Queretaro, La Amelia in Sonora and Pinzan Morado in Guerrero, among others. He has also promoted important mining assets with Canadian companies, the latest being the Morelos Sur and El Barqueno projects with Cayden Resources.

From 1993 to 2001 he was deputy technical director of the Trust for Mining Development in Mexico, a development bank specializing in the mining industry. He has been President of the prestigious College of Engineering Geologists, Mining and Metallurgist of Mexico and has occupied executive positions in the AIGMM as well as an advisor in the Engineering faculty at UNAM.

During his professional career, he worked eight years as divisional projects superintendent with Peñoles, participating in the development and construction on various mines between 1978-1985 and with Minas de San Luis in 1980 and Minera Autlan in 1977.

Ralph Shearing, a Director, has managed and directed publicly-listed companies over the last 32 years and was the founder of Soho Resources/Telson Mining.

He is a graduate of the University of British Columbia holding a B. Sc. Geology Degree. He has worked as a geologist throughout Canada, and internationally. He has been directly involved in several world class exploration and development projects in British Columbia, Canada. During an active mineral exploration and development career, he has gained hands-on experience in all aspects of mineral exploration, including, geophysics, geochemistry, geology and diamond core drilling, the latter as a senior partner of a successful contract diamond drilling company.

Rory Godinho, non-executive director, is the Co-Chair of Miller Thomson's Capital Markets and Securities Group. He has extensive contacts in the Canadian capital markets and has assisted several public and private companies with raising equity. He has a broad range of experience in all types of securities transactions and corporate governance related matters.

He is the past Chair of the TSX Venture Exchange's National Advisory Committee, and a current director of the Capital Markets Authority Implementation Organization (CMAIO) which is expected to create and evolve into the Capital Markets Regulatory (CMRA). CMRA is a cooperative proposal by several Canadian Provinces, including British Columbia and Ontario, and the Canadian Federal Government to create a single regulator to administer a common securities act.

Arturo Bonillas, a non-executive director, is the former President and Co-Founder of Timmins Gold Corp. (now Alio Gold Inc.) His knowledge of mining in Mexico has been essential to the Company's success. As President he built the production and exploration teams in Mexico and guided the company to consistent annual increases in reserve and resource growth, throughput and production. He has more than 34 years of experience in the mining and exploration industry in Mexico. He has held positions ranging from mine planning engineer, operations research engineer, chief of financial planning and Vice President of purchasing for Compania Minera de Cananea, and later for a subsidiary of Placer Dome in Mexico. He directed the BFS for the Mulatos gold project in Sonora, and the San Felipe gold project in Baja California. He is currently Chairman of the Advisory Board of Discovery Metals, a base metals explorer in Mexico. He holds a B.Sc. degree in Industrial Engineering from the University of Arizona .

Enrique Margalef, a director, is responsible for Telson's corporate development. He is a former investment banker with 10 years of experience in mergers and acquisitions, financial valuations, evaluation of investment projects, analysis of financial statements and cash flow management. He has performed business valuations and analysis of investment projects for Mexican and transnational companies in the mining industry, training/education industries, payments industry and hardware industry, among others.

During his professional career, five years have been dedicated specifically to the mining industry, having been a partner at Candiani Mining Investment Bank for three years. He has advised clients in the valuation of their mines and exploration projects. Additionally, he managed the investments of Vander Capital Partners private equity fund for the acquisition and exploration of two early stage exploration projects before moving to Vander Mining, a Vander Capital Partners subsidiary, as a partner. He graduated in Economics from Universidad Anahuac in Mexico.

Remigio Martinez, a non-executive director, worked 46 years with Grupo Mexico starting in 1967 as a Mine Geologist in Taxco, Guerrero and ending as Grupo Mexico's Director of Exploration in 2013. From 2013 to 2016 he maintained an exclusive consultant position with Grupo Mexico and became an independent consultant thereafter.

During his career with Grupo Mexico, he oversaw geophysical exploration in Mexico where his work was

instrumental in the discovery of several porphyry copper deposits, such as El Arco in Baja California and Malpica in Sinaloa Mexico. From 1975 to 1980 he was Chief Mine Geologist, where his group of geological professionals increased the reserves of seven underground mines owned by Grupo Mexico's subsidiary, Industrial Minera Mexico S.A. (IMMSA).

During his tenure as Director of Exploration he was influential in the definition and evaluation of the Buenavista Zinc deposit, adjacent to the Cananea Porphyry Copper deposit. In South America, Sr. Martinez supported the exploration staff of Southern Peru in the discovery of the "La Tapada" portion of the Tia Maria copper deposit and in identifying several other deposits in Chile. His most recent contribution to the Grupo Mexico was the preliminary evaluation of the Aznalcollar massive sulfide deposit in Spain.

In his career with Grupo Mexico, he worked as a Geophysicist and Exploration Geologist, Manager of Mine Geology for underground operations, and Director of Exploration for Grupo Operations in Mexico, Peru, USA, Canada, French Guyana, Ireland, Australia and Chile. He has worked in all facets of mineral exploration and development, from field geology to final economic evaluation of properties and onward to underground and open pit mining operations. He has extensive expertise in porphyry copper and in underground vein and skarn type deposits.

He graduated with a B.S. in Geology from Michigan Technological University in 1966 and in 1973 he received a M.S. in Economic Geology from the Colorado School of Mines.

Yao Sun, a non-executive director, graduated from the University of BC with a Bachelor of Commerce in 2005. He is an active member of the CFA Institute and the Certified Management Accountants (CMA) of Canada. Upon graduation from UBC, Mr. Sun was a financial analyst and portfolio manager for a private real estate company in Beijing, China. He is currently the CEO of Clearstone Capital Corporation, a Canadian company which provides advisory services to Canadian & Chinese public companies.

Risks

Amongst the risks at the current time are:

- Zinc price risk
- Payment on Campo Morado deal is due in June 2018 and financing in the markets is still tenuous
- Difficulties or inability to expand resource(s)

The Zinc price has over the last 18 months finally rewarded the stance of those long term bulls who foresaw a looming empty pipeline. Despite the "crisis" in Zinc supply being now a reality, the equity markets have not rewarded Zinc developers or even explorers with funding. This implies that the crisis shall roll on. When the Great White Hope of the industry is the reboot of the Century mine one can see that the end-users are clutching at straws. The Zinc price has paused at key levels on its trajectory upwards. The surge to over $1.60 per lb was a bridge too far and retrenchment set in. Now the metal

has established a new floor and should start to creep higher in coming months with our near term goal being a breaching of the $2 per lb mark.

In light of the strongly rising revenue stream at Campo Morado in particular we do not feel it will be difficult to achieve a financing via equity (though this possibility may be to blame for the recent share price weakening) or via debt.

The potential to expand resources looks very propitious in both cases. Due to tight finances Soho/Telson could not undertake the level of drilling it would have liked after the crash of 2008. Thus Tahuehueto could benefit for more exploration and the deposits are open in various directions. Likewise at Campo Morado Nyrstar was a producer not an explorer and did minimal work at expansion of known (or unknown) mineralisations. Beyond these two factors merely recalculating existing resources at new price points for the major metals represented would expand resources. We would also note that Tahueheto already has a 12-year LoM with existing reserves and there are another six million tons of resources that could in the future be upgraded to reserves and add additional LoM.

Conclusion

Bringing one Zinc mine into production is feat enough in this day and age and now Telson has two on the verge of commercial production. The message from other Nyrstar cast-offs is that invariably these deposits were not understood or developed correctly by their erstwhile owner and that they do better on the “second-go-around”. Telson is one of the few companies that have positioned themselves in the right metal at the right time.

Telson is a refreshing example that Canadian miners can change their spots. Traditionally Canadian geos have stuck to the tired (and nonsensical) mantra that they must find a deposit then sell it. This strategy has singularly failed for droves in recent years. In this case though, the long-time driving force of Telson, Ralph Shearing has drafted in a crew of Mexican mining experts to facilitate in the company integrating its bargain purchase of the Campo Morado asset. That Telson decided to drop the “Resources” from its name and switch to “Mining” was one in the eye for do-nothings of the TSX-V “explore till you drop” school of thought.

Studies on the properties have used metals prices that have now been left behind as Zinc has surged higher. Despite this the base case scenario NPV of both of Telson’s projects, Tahuehueto and Campo Morado, adds to US$218mn on a pre-tax basis and US$142mn on a post-tax basis. We would respectfully posit that the real NPV on expanded resources, cost savings and higher prices puts the NPV, both in per- and post-tax modes at a multiple of these levels.

Regular metal concentrate delivery and sales are underway from both projects, even though commercial production has not been declared, and cashflow has kicked off with a reliable offtaker in the form of Trafigura. Telson has signalled that Campo Morado, at least, should be declared as commercial production before the end of 2Q18. A share price retracement in March on Zinc price weakness and

financing jitters is now behind the company and the price is climbing again as the extent of its future importance as a Zinc producer is becoming known.

We added a Long position in Telson Mining to the Model Mining Portfolio in March with a twelve-month share price target of CAD$2.00.

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

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