ALTALEY MINING CORPORATION

(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2022 and 2021

(UNAUDITED)
Prepared by Management

(Expressed in thousands of Canadian dollars)

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(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of Altaley Mining Corporation (the "Company") have been prepared by and are the responsibility of Company's management and approved by the Company's Audit Committee and Board of Directors.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by CPA Canada for a review of interim financial statements by the entity's auditor.

May 30, 2022

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Condensed Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)
Unaudited - Prepared by Management

	Notes		As at March 31, 2022		As at December 31, 2021
Assets					
Cash		$	1,822	$	3,049
Marketable securities	4		3,797		3,909
Accounts receivable	5		8,593		8,451
Prepaid expenses and deposits			4,950		3,512
Inventories	6		8,518		9,707
			27,680		28,628
Mineral interest and development assets	7		44,109		40,699
Property, plant and equipment	8		41,207		37,655
Taxes receivable long-term	5		15		15
Other assets	10		1,530		1,808
			86,861		80,177
Total assets		**$**	**114,541**	**$**	**108,805**
Liabilities					
Accounts payable and accrued liabilities		$	19,168	$	16,492
Due to Breakwater Resources Ltd	7(b), 9		3,090		3,132
Short-term debt	10		13,460		10,620
Empress royalty stream	11		234		227
Current portion of lease liabilities	12		1,224		1,271
			37,176		31,742
Long-term due to Breakwater Resources Ltd	7(b), 9		1,549		2,356
Long-term debt	10		22,775		23,926
Long-term Empress royalty stream	11		6,970		6,761
Lease liabilities	12		8,504		8,750
Provision for site reclamation and closure			4,787		4,599
			44,585		46,392
Total liabilities		**$**	**81,761**	**$**	**78,134**
Equity					
Share capital	13	$	86,077	$	84,757
Share subscriptions received in advance			1,264		-
Equity reserves	14		11,988		11,803
Accumulated other comprehensive loss			(1,907)		(1,402)
Deficit			(64,642)		(64,487)
			32,780		30,671
Total liabilities and equity		**$**	**114,541**	**$**	**108,805**

Going concern (Note 1)
Subsequent events (Note 21)

Approved by the Board of Directors on May 30, 2022, and signed on the Company’s behalf by:

"David Rhodes"
Director

"Ralph Shearing"
Director

The accompanying notes form an integral part of these condensed interim consolidated financial statements

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(Expressed in thousands of Canadian dollars, except shares and per share amounts)
Unaudited - Prepared by Management

	Notes	Three months ended March 31, 2022	2021
Revenues			
Gross sales		$ 21,534	$ 21,216
Treatment and selling costs		(8,806)	(7,481)
		12,728	13,735
Cost of Sales			
Production cost		$ 10,676	$ 7,867
Royalties		533	451
Depletion, depreciation, and amortization	7, 8	304	120
		11,513	8,438
Mine operating profit		1,215	5,297
General Expenses:			
Consulting fees, wages and benefits	18	$ 594	$ 582
Legal and professional fees		128	92
Office, rent and administration		261	307
Amortization of right-of-use assets	8, 12	30	5
Regulatory, transfer agent and shareholder information		38	3
Travel, promotion and investor relations		232	78
Share-based compensation	7, 14, 18	151	282
		1,434	1,349
Other (income) expenses:			
Interest income		$ (213)	$ (211)
Change in fair value of financial instruments	4	155	196
Finance costs	15	1,023	608
Other income and expenses		9	55
Foreign exchange (gain)		(1,038)	(502)
		(64)	146
Net (loss) income for the period		**$ (155)**	**$ 3,802**
Other comprehensive (loss) income			
Items that will be reclassified subsequently to profit or (loss)			
Foreign currency translation adjustment		(505)	80
Total items that may be reclassified subsequently to profit or (loss)		(505)	80
Total net comprehensive (loss) income for the period		**$ (660)**	**$ 3,882**
Weighted average number of common shares outstanding			
Basic		261,522,345	183,119,346
Diluted		261,522,345	263,053,587
Earnings (loss) per share ("EPS")			
Basic EPS		$ 0.00	$ 0.02
Diluted EPS		$ 0.00	$ 0.01

The accompanying notes form an integral part of these condensed interim consolidated financial statements

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in thousands of Canadian dollars, except for number of common shares)

Unaudited - Prepared by Management

	Notes	Number of common shares	Share capital	Share subscriptions received in advance	Equity reserves	Accumulated other comprehensive income (loss)	Deficit	Total
Balance as at December 31, 2020		**182,766,619**	**$ 65,317**	**$ –**	**$ 10,591**	**$ (1,867)**	**$ (100,752)**	**$ (26,711)**
Shares issued on private placement, net of issuance cost	13	50,400,000	9,602	–	–	–	–	9,602
Stock options exercised	13, 14	2,903,335	377	–	–	–	–	377
Fair value of stock options allocated to share capital on exercise	13	–	377	–	(377)	–	–	–
Share-based compensation	14	–	–	–	534	–	–	534
Income and comprehensive income for the period		–	–	–	–	80	3,802	3,882
Balance as at March 31, 2021		**236,069,954**	**$ 75,673**	**$ –**	**$ 10,748**	**$ (1,787)**	**$ (96,950)**	**$ (12,316)**
Balance as at December 31, 2021		**257,560,537**	**$ 84,757**	**$ –**	**$ 11,803**	**$ (1,402)**	**$ (64,487)**	**$ 30,671**
Subscriptions received in advance		–	–	1,264	–	–	–	1,264
Warrants exercised	13	5,281,971	1,320	–	–	–	–	1,320
Share-based compensation	14	–	–	–	185	–	–	185
Loss and comprehensive loss for the period		–	–	–	–	(505)	(155)	(660)
Balance as at March 31, 2022		**262,842,508**	**$ 86,077**	**$ 1,264**	**$ 11,988**	**$ (1,907)**	**$ (64,642)**	**$ 32,780**

The accompanying notes form an integral part of these condensed interim consolidated financial statements

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)
Unaudited - Prepared by Management

	Notes	Three months ended March 31, 2022	2021
Cash provided by (used in):			
Operating activities:			
(Loss) income for the period		$ (155)	$ 3,802
Items not involving cash:			
Accretion for site reclamation and closure		135	115
Depletion, depreciation, and amortization	7, 8	304	120
Amortization of right-of-use assets	12	30	5
Share-based compensation	14	178	482
Amortization of deferred financing costs	10	266	136
Accretion on Empress Royalty stream	11	321	–
Revaluation of financial instruments	4, 9	155	196
Accrued interest on debt	9, 10	301	298
Changes in non-cash working capital:			
Accounts receivable and other assets		(61)	(898)
Prepaid expenses and deposits		(1,378)	(287)
Inventories		1,276	(187)
Accounts payable and accrued liabilities		2,360	(2,713)
Cash provided by operating activities		3,732	1,069
Investing activities:			
Plant and equipment, net	8	(3,740)	(72)
Mineral interest and development assets additions	7	(3,400)	(292)
Cash used in investing activities		(7,140)	(364)
Financing activities:			
Shares issued on financing, net of issuance costs	13	–	9,602
Share subscriptions received in advance	13	1,264	–
Interest paid	9, 10, 12	(748)	(62)
Debt acquired	10(c)	2,906	–
Proceeds in connection to warrants and/or stock options exercised		1,320	377
Repayment of right of use liabilities	12	(153)	(105)
Repayment of debt	9, 10	(2,133)	–
Cash provided by financing activities		2,456	9,812
Effect of foreign exchange rate changes on cash		(275)	18
(Decrease) increase in cash		(1,227)	10,535
Cash, beginning of the period		3,049	257
Cash, end of the period		**$ 1,822**	**$ 10,792**

Supplemental cash flow information (Note 16)

The accompanying notes form an integral part of these condensed interim consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Altaley Mining Corporation (Formerly Telson Mining Corporation), (the "Company" or "Altaley") was incorporated on April 11, 1986, under the laws of British Columbia, Canada. The Company's head office address is Suite 1000 - 1111 Melville Street, Vancouver, British Columbia, V6E 3V6, Canada. The registered and records office address is 725 Granville Street, Suite 400, Vancouver, British Columbia, Canada, V7Y 1G5. The Company is listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "ATLY".

Going concern

The Company's principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project (Note 7). Effective May 16, 2018, the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the "Accendo Syndicate") to provide up to US$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo's banking license and started its liquidation. The Company has a US$5.8 million balance to be drawn down from its executed Medium Term Loan Facility ("MTLF") (Note 10 (c)) which is now impaired and was part of the total US$25 million Accendo Syndicate financing. Effective March 31, 2022, the Company executed with Trafigura, a waiver of debt covenants that would otherwise not be met which relate to maintenance of a minimum current ratio. Notwithstanding, subsequent to completing the necessary financing to place Tahuehueto into commercial production, there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company's current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company's continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company's ability to dispose of some or all of its interests on an advantageous basis. As a result of these risks, there are material uncertainties which may cast significant doubt as to the Company's ability to continue as a going concern. There is no assurance that the Company's funding initiatives will be successful, and these consolidated financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported consolidated statements of financial position classifications that would be necessary if the going concern assumption were inappropriate. No adjustments have been made should the going concern assumption not be appropriate and such adjustments could be material. The Company has a working capital deficit as at March 31, 2022 of $9,496 (December 31, 2021 - $3,114) and an accumulated deficit of $64,642 (December 31, 2021 - $64,487). These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The Company has evaluated the potential impacts arising from COVID-19 on all aspects of its business, with particular attention to indicators of impairment/reversal of impairment of non-financial assets, inventory and accounts receivable valuations, and deferred tax provisions. In all these areas, for the three months ended March 31, 2022, there was no significant financial impact to the Company.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 30, 2022.

(b) Basis of presentation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2021. However, this interim financial report provides selected significant disclosures that are required in the annual audited consolidated financial statements under IFRS.

Except as described below, these condensed interim consolidated financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements for the year ended December 31, 2021. The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2022.

(c) Functional and presentation currency

The presentation currency of the Company's financial statements is the Canadian dollar; therefore, references to $ means Canadian dollars, US$ are to United States dollars and MXN$ to Mexican pesos.

(d) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to select accounting policies and make estimates and judgments that may have a significant impact on the condensed interim consolidated financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accounting judgements and estimates which have the most significant effect on these condensed interim consolidated financial statements were the same as those applied to the audited consolidated financial statements as at the period ended December 31, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the annual financial statements for the year ended December 31, 2021. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

operations and cash flows have been included. Operating results for the three months ended March 31, 2022, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

4. MARKETABLE SECURITIES

		Amount
Balance, December 31, 2020	$	4,271
Change in fair value of marketable securities		(223)
Foreign currency movement		(139)
Balance, December 31, 2021	**$**	**3,909**
Change in fair value of marketable securities		(155)
Foreign currency movement		43
Balance, March 31, 2022	**$**	**3,797**

The Company holds senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at March 31, 2022 and are therefore classified as level 1 within the fair value hierarchy with an interest rate of 11% per annum, payable every six months. The investments are held in Mexico and their maturity date is August 2023.

5. ACCOUNTS RECEIVABLE

		March 31, 2022		December 31, 2021
Trade receivables	$	699	$	1,629
Value added taxes and other taxes receivable		7,551		6,655
Other receivables		343		167
Total accounts receivable	**$**	**8,593**	**$**	**8,451**

The Company has a concentrate off-take agreement where the customer will purchase 100% of the metals concentrate produced at the Campo Morado and Tahuehueto mining properties.

During the three months ended March 31, 2022, the Company disclosed as a long-term receivable, value added taxes generated in Mexico based on the expected timing of realization. As at March 31, 2022 the Company has $15 (December 31, 2021 – $15) in valued added taxes receivable included in non-current assets.

6. INVENTORIES

		March 31, 2022		December 31, 2021
Materials and supplies	$	5,831	$	6,146
Concentrates		1,221		1,263
Stock pile ore		1,466		2,298
Total inventories	**$**	**8,518**	**$**	**9,707**

During the three months ended March 31, 2021, the Company recognized $4,703 (March 31, 2021 – $3,510) of inventory as an expense through cost of sales.

7. MINERAL INTEREST AND DEVELOPMENT ASSETS

a) Tahuehueto mining project

In 1997, the Company through a wholly owned subsidiary entered into a share purchase agreement (the "Real Agreement") to purchase 90% of the issued and outstanding shares of Real de la Bufa, which holds a 100% interest in the Tahuehueto mineral property, located in the state of Durango, Mexico. In 2007, the Company converted into equity a portion of its inter-company debt with Real de la Bufa, thereby increasing its ownership to 99%. A portion of the Tahuehueto mineral property is subject to a 1.6% net smelter return royalty ("NSR").

Pursuant to the Real Agreement, the Company is obligated to make final payments in the amount of $251 (December 31, 2021 – $234 (US$200,000)) to some of the Real de la Bufa's shareholders. On April 26, 2016, the Company signed an agreement with the local community and extended the surface access rights for 30 years. Under the terms of the agreement, the Company is obligated to make equal recurring annual payments in the amount of (US$46,540) which increase at a rate of 5% compounded annually.

Effective January 1, 2017, the Company commenced capitalization of all direct costs related to the development of the Tahuehueto project to mineral interest and development asset under IAS 16, as management determined that the technical feasibility and commercial viability had been established through the positive results associated with the pre-feasibility study, access to financing and board approval to start developing the project, thereby making it a development stage asset under IFRS.

b) Campo Morado mine

On June 13, 2017, the Company completed a definitive share purchase agreement (the "Campo Morado Agreement") with Nyrstar Mining Ltd., and Nyrstar Mexico Resources Corp. (collectively "Nyrstar") to purchase all the shares of Nyrstar's Mexican subsidiary companies that make up and own 100% of the Campo Morado mine ("Campo Morado"), located in Guerrero State, Mexico.

The purchase price totalled US$20 million consisting of the following payments:

i. US$0.8 million at signing of the agreement (paid);
ii. US$2.7 million on or before September 12, 2017 (paid); and
iii. US$16.5 million on or before June 13, 2018 of which US$3.7 million remains outstanding as at March 31, 2022 (December 31, 2021 – US$4.3 million)

The Campo Morado project is subject to a royalty between 2% and 3% of the net value of sales over the minerals extracted during the term of existence of the mining concession to the Servicio Geológico Mexicano ("SGM").

As part of the Campo Morado Agreement, the seller retained the right to receive a variable purchase price ("VPP") on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado mine when the price of zinc is at or above US$2,100 per tonne. This was accounted for as contingent consideration. Effective April 13, 2021, the Company exercised its option to settle the US$4 million VPP obligation under the Campo Morado Agreement (Note 9). As consideration, it was agreed that the obligation would be settled with 14,600,000 common shares of Altaley valued at $0.38 per common share based on the share price at the date of issuance.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets

For the three months ended March 31, 2022, and the year ended December 31, 2021, the Company capitalized the following acquisition and developments costs:

		Tahuehueto		Campo Morado		Total
Balance as at December 31, 2021	**$**	**24,237**	**$**	**16,462**	**$**	**40,699**
Costs incurred:						
Freight and related costs		194		-		194
Depreciation and amortization capitalized		563		-		563
Camp cost, equipment, and field supplies		342		-		342
Development costs		111		-		111
Supplies, fuel, lubricants and other		356		-		356
Project general and office expenses		110		-		110
Permitting, environmental and community costs		111		-		111
Salaries and wages		229		-		229
Share-based compensation		6		-		6
Travel and accommodation		66		-		66
Interest capitalized, net		1,106		-		1,106
Total additions for the period	$	3,194	$	-	$	3,194
Depletion for the period		-		(151)		(151)
Foreign currency movement		601		(234)		367
Balance, March 31, 2022	**$**	**28,032**	**$**	**16,077**	**$**	**44,109**

		Tahuehueto		Campo Morado		Total
Balance as at December 31, 2020	**$**	**16,585**	**$**	**-**	**$**	**16,585**
Costs incurred:						
Freight and related costs		237		-		237
Depreciation and amortization capitalized		1,579		-		1,579
Camp cost, equipment, and field supplies		443		-		443
Supplies, fuel, lubricants and other		328		-		328
Project general and office expenses		607		-		607
Permitting, environmental and community costs		313		-		313
Salaries and wages		585		-		585
Share-based compensation		148		-		148
Travel and accommodation		129		-		129
Gain on extinguishment of debt (Note 10b)		(1,368)		-		(1,368)
Interest capitalized, net		2,652		-		2,652
Total additions for the year	$	5,653	$	-	$	5,653
Reversal of impairment		-		16,340		16,340
Change of provision for site reclamation and closure		1,574		(2,434)		(860)
Foreign currency movement		425		2,556		2,981
Balance, December 31, 2021	**$**	**24,237**	**$**	**16,462**	**$**	**40,699**

Included in mineral interest and development assets is $1,106 (March 31, 2021 – $426) of capitalized borrowing costs based on a capitalization rate of 100%. Borrowing costs capitalized to mineral interest and development assets include $163 of non-cash accretion for the three months ended March 31, 2022 (March 31, 2021 – $nil).

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Right of use assets (Note 12)	Total
Cost						
Balance, December 31, 2020	$ 3,182	$ 4,453	$ 7,979	$ 3,405	$ 1,669	$ 20,688
Additions	-	48	1,924	11,426	9,554	22,952
Change in estimate	-	-	-	-	9	9
Transfers	-	980	-	(980)	-	-
Dispositions	-	-	-	-	(249)	(249)
Foreign currency movement	(12)	(23)	(3)	108	(7)	63
Balance, December 31, 2021	$ 3,170	$ 5,458	$ 9,900	$ 13,959	$ 10,976	$ 43,463
Additions	-	-	161	4,768	-	4,929
Foreign currency movement	(45)	(78)	(181)	(264)	(154)	(722)
Balance March 31, 2022	**$ 3,125**	**$ 5,380**	**$ 9,880**	**$ 18,463**	**$ 10,822**	**$ 47,670**
Accumulated amortization						
Balance, December 31, 2020	$ -	$ 394	$ 2,684	$ -	$ 547	$ 3,625
Amortization for the period	-	320	1,403	-	517	2,240
Dispositions	-	-	-	-	(93)	(93)
Foreign currency movement	-	2	4	-	30	36
Balance, December 31, 2021	$ -	$ 716	$ 4,091	$ -	$ 1,001	$ 5,808
Amortization for the period	-	59	388	-	299	746
Foreign currency movement	-	(11)	(64)	-	(16)	(91)
Balance March 31, 2022	**$ -**	**$ 764**	**$ 4,415**	**$ -**	**$ 1,284**	**$ 6,463**
Net book value						
Balance, December 31, 2021	**$ 3,170**	**$ 4,742**	**$ 5,809**	**$ 13,959**	**$ 9,975**	**$ 37,655**
Balance March 31, 2022	**$ 3,125**	**$ 4,616**	**$ 5,465**	**$ 18,463**	**$ 9,538**	**$ 41,207**

9. DUE TO BREAKWATER RESOURCES LTD.

As at March 31, 2022 and December 31, 2021, the Company recorded the following amounts due to Breakwater Resources Ltd ("Breakwater"):

	Consideration payable due to acquisition	Contingent consideration (Note 7(b))	Total
Balance, December 31, 2020	$ 8,891	$ 5,094	$ 13,985
Interest accrued	706	-	706
Interest paid	(2,556)	-	(2,556)
Principal paid	(1,452)	-	(1,452)
Change in fair value of contingent consideration	-	2,148	2,148
VPP settled with common shares	-	(5,548)	(5,548)
VPP settled with cash	-	(1,629)	(1,629)
Gain on extinguishment	(25)	-	(25)
Foreign currency movement	(76)	(65)	(141)
Balance, December 31, 2021	$ 5,488	$ -	$ 5,488
Interest accrued	135	-	135
Interest paid	(131)	-	(131)
Principal paid	(785)	-	(785)
Foreign currency movement	(68)	-	(68)
Balance, March 31, 2022	**$ 4,639**	**$ -**	**$ 4,639**

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

9. DUE TO BREAKWATER RESOURCES LTD. (continued)

	March 31, 2022	December 31, 2021
Current portion	$ 3,090	$ 3,132
Long term portion	1,549	2,356
Balance	**$ 4,639**	**$ 5,488**

On June 13, 2017, the Company acquired Campo Morado mine for a total purchase price of US$20 million paid as follows:

i. US$0.8 million at signing of the agreement (paid);
ii. US$2.7 million on or before September 12, 2017 (paid); and
iii. US$16.5 million on or before June 13, 2018 of which US$3.7 million remains outstanding as at March 31, 2022 (December 31, 2021 – US$4.3 million)

On June 12, 2018, the Company renegotiated the terms for the remaining US$8.5 million balance on the Campo Morado Agreement and entered into a loan agreement with Nyrstar ("Campo Morado Loan Agreement").

Effective April 13, 2021, the Company exercised its option to settle the US$4 million VPP obligation under the Campo Morado Agreement. As consideration, it was agreed that the obligation was settled with 14,600,000 common shares of Altaley valued at $0.38 per common share. The Company recorded a loss of $2,148 which represents the change in the fair value of common shares issued at $5,548 and the VPP cash settlement of $1,629 contingent consideration settled with Nyrstar.

On June 17, 2021, the Company and Nyrstar agreed to amend the Campo Morado Loan Agreement with the following terms: upon the execution and funding of the Accendo MTLF (Note 10(c)), the Company will repay the interest owing, a portion of the principal of the loan and the incurred VPP for a total of US$3.2 million (paid). The remaining outstanding balance of the loan will be paid in twenty-six equal monthly instalments accruing interest at a rate of 10% per annum.

In addition to the aforementioned monthly principal repayments, Altaley will pay at the end of each quarter succeeding the grace period, 70% of any excess cash above US$7 million generated by Altaley on the Campo Morado mining project.

The loan amendments on June 17, 2021 resulted in a substantial modification of terms as outlined above. As a result of the amendment of terms, the Company recognized a gain on extinguishment in other income and expenses totaling $25 impacting the valuation in relation to the Campo Morado Loan Agreement during the year ended December 31, 2021. As at March 31, 2022, the unamortized balance of the discount is $12 (December 31, 2021 – $16).

Effective September 30, 2021, Breakwater Resources Ltd., acquired from Nyrstar the rights and obligations associated with the Campo Morado Loan Agreement. The Deed of Novation between the Company, Nyrstar, and Breakwater effectively releases and discharges the Company and Nyrstar from further obligations to each other with respect to the Campo Morado Loan Agreement and their respective rights against each other thereunder are cancelled. In respect to the Deed of Novation, the Company and Breakwater each undertake liabilities and obligations towards the other and acquire rights against each other effectively replacing Nyrstar with Breakwater as the lender in relation to the Campo Morado Loan Agreement.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

10. SHORT AND LONG-TERM DEBT

a) Line of Credit

On July 22, 2016, the Company entered into an agreement with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. ("Escorfin"), for a line of credit for up to $9.6 million (MXN$150 million) (the "LOC"). The funds from the LOC were used towards the Company's investment plan established in its completed Internal Scoping Study. The funds drawn down under the LOC accrue interest at a rate of 15% per annum, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly instalments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly instalments following a 36-month grace period and no later than July 28, 2022. In case of default any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The Company has drawn down from its LOC a total amount of $3.0 million (MXN$46 million) primarily to further its Tahuehueto project.

Effective July 1, 2021, the Company and Escorfin agreed to amend the LOC agreement resulting in a substantial modification whereby the outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. To accommodate the amendment, Escorfin has been accepted into the Trust Agreement defined in Note 10(b). The remaining term was extended 36 months from the date of amendment with a grace period equal to 12 months on principal and interest. The amended interest rate was decreased to 10% per annum from 15% per annum and as consideration for LOC modification, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants. Each bonus warrant is exercisable within a period of two years at a price of $0.475. The shares issued were valued at the date of issuance, July 30, 2021, and the bonus warrants were fair valued using the Black-Scholes option pricing model, together totaling $1,197 which was recorded as deferred financing costs in other assets. The assumptions used for determining the fair value of these warrants were: risk-free interest rate 0.45%, expected dividend yield $nil, stock price volatility 125%, and expected life of 2 years. The unamortized balance as at March 31, 2021 is $854 (December 31, 2021 – $996).

The continuity of the outstanding LOC balance is as follows:

		Amount
Balance, December 31, 2020	$	4,127
Interest accrued prior to extinguishment		254
Loss on extinguishment		139
Interest accrued following extinguishment		229
Foreign currency movement		(13)
Balance, December 31, 2021	$	4,736
Interest accrued		113
Foreign currency movement		(71)
Balance, March 31, 2022	**$**	**4,778**

		March 31, 2022		December 31, 2021
Current portion	$	2,003	$	1,357
Long term portion		2,775		3,379
Balance	**$**	**4,778**	**$**	**4,736**

10. SHORT AND LONG-TERM DEBT (continued)

b) Trafigura Loans

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

On December 7, 2017, the Company entered into an additional loan agreement ("Loan Agreement Real") with Trafigura Mexico, S.A. de C.V. in the amount of US$15 million for financing working capital, rehabilitation and operation of the Tahuehueto mining project. The Loan Facility was available in three tranches, the first tranche equivalent to US$7.5 million, which was received upon signing of the agreement. The second tranche equal to US$5 million, which was received on November 6, 2018. The third tranche for US$2.5 million was not received and is not longer available. The loan bears interest at an effective annual rate equivalent to LIBOR (1 year) plus 6%, it has a three-year term with a twelve-month grace period followed by twenty-four repayments. In connection to the loan agreement the Company's subsidiary Real de la Bufa, S.A. de C.V., also entered into an Offtake agreement with Trafigura., ("Offtake Agreement Real") in which the Company will sell all its zinc and lead concentrates for a sixty-month term, starting January 2018.

On July 1, 2021, the Company and Trafigura agreed to amend the terms of the Trafigura Loans. The loan amendments resulted in a substantial modification whereby the interest rates remain unchanged and unpaid interest was capitalized to the outstanding principal of the loans. The maturity dates of the Loan Agreement Campo and Loan Agreement Real were extended to September 30, 2023 and September 30, 2024, respectively, with 26 equal instalments beginning August 30, 2021 for the Loan Agreement Campo and 32 equal instalments beginning February 1, 2022 for the Loan Agreement Real. As a result of the substantial modification of terms, during the year ended December 31, 2021 the Company recognized a gain on extinguishment in other income and expenses of $312 impacting the fair value of the Loan Agreement Campo and capitalized a gain on extinguishment to mineral interest and development assets of $1,352 impacting the fair value of the Loan Agreement Real.

In connection to the restructure of the Trafigura Loans and the waiver received on March 26, 2020, to correct previous non-compliance of the Trafigura Loans terms and conditions, the Company agreed to transfer all of its assets in the Campo Morado and Tahuehueto mining projects to a trustee of the Trust Agreement (the "Trust") in order to secure the full repayment of the Loan Agreements. Should the total debt due to Trafigura under the Loan Agreements be fully repaid, the Trust will be terminated, and all assets held within the Trust will return to the Company. On November 12, 2020, the Company executed the Trust with Trafigura.

On March 31, 2022, the Company obtained a waiver in respect to the Trafigura Loans as it was not able to meet one of its covenants related to the requirement of the Company to maintain a minimum current assets ratio in respect to current liabilities of 1.1 (Minimum Current Ratio 1.1").

As at March 31, 2022, the unamortized balance of the fair value discount on the Loan Agreement Campo and Loan Agreement Real is $151 and $888, respectively (December 31, 2021 – $202 and $1,063).

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

10. SHORT AND LONG-TERM DEBT (continued)

The continuity of the Trafigura Loans are as follows:

	Loan Agreement Campo	Loan Agreement Real	Total Trafigura Loans
Balance, December 31, 2020	$ 5,013	$ 18,384	$ 23,397
Interest accrued and capitalized	108	478	586
Interest accrued	257	1,007	1,264
Interest paid	(124)	(587)	(711)
Principal paid	(970)	-	(970)
Gain on extinguishment	(312)	(1,352)	(1,664)
Foreign currency movement	(35)	(226)	(261)
Balance, December 31, 2021	$ 3,937	$ 17,704	$ 21,641
Interest accrued	99	483	582
Interest paid	(52)	(310)	(362)
Principal paid	(588)	(760)	(1,348)
Foreign currency movement	(49)	(247)	(296)
Balance, March 31, 2022	**$ 3,347**	**$ 16,870**	**$ 20,217**

	Loan Agreement Campo	Loan Agreement Real	Total Trafigura Loans
Current portion	$ 2,209	$ 6,348	$ 8,557
Long term portion	1,138	10,522	11,660
Balance, March 31, 2022	**$ 3,347**	**$ 16,870**	**$ 20,217**

	Loan Agreement Campo	Loan Agreement Real	Total Trafigura Loans
Current portion	$ 2,215	$ 5,306	$ 7,521
Long term portion	1,722	12,398	14,120
Balance, December 31, 2020	**$ 3,937**	**$ 17,704**	**$ 21,641**

c) Accendo Loan

On July 1, 2021, the Company and Accendo executed a US$12 million Medium Term Loan Facility (“MTLF”) for the purpose of funding the construction of Altaley’s Tahuehueto mining project and working capital purposes. To accommodate the MTLF, Accendo has been accepted into the Trust Agreement defined in Note 10(b). First and second funding were received in the amount of US$3.2 million and US$2.5 million on July 19, 2021 and August 23, 2021, respectively. Additionally, an amount of US$500,000 was advanced during the year 2020.

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

- Loan facility amount – US$12 million
- Repayment term – 4 years including a one-year grace period on principal
- Repayable in 36 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum payable quarterly in arrears calculated on the drawn amount
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

10. SHORT AND LONG-TERM DEBT (continued)

Altaley issued 15 million bonus warrants at an exercise price of $0.09 per common share for a period of 48 months. The bonus warrants were issued in lieu of a work fee but subject to cancelation if the loan facility is not fully drawn. The bonus warrants were fair valued using the Black-Scholes option pricing model and the value of $1,628 which was recorded in other assets. The assumptions used for determining the fair value of the warrants were: risk-free interest rate 0.33%, expected dividend yield $nil, stock price volatility 128% and expected life of 4 years. The unamortized balance as at March 31, 2022 is $676 (December 31, 2021 – $812).

On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo's operating license to organize and operate as a multiple banking institution and started a liquidation process to protect the savings of the bank's clients. The Company has a US$5.8 million balance to be drawn down from the MTLF, however due to recent events the Company anticipates that its ability to draw any future funds is impaired.

The continuity of the MTLF is as follows:

		Amount
Balance, December 31, 2020	$	657
Disbursements		7,146
Interest accrued		456
Interest paid		(137)
Principal paid		(35)
Foreign currency movement		82
Balance, December 31, 2021	$	8,169
Interest accrued		265
Foreign currency movement		(121)
Balance, March 31, 2022	**$**	**8,313**

		March 31, 2022		December 31, 2021
Current portion	$	2,624	$	1,742
Long term portion		5,689		6,427
Balance	**$**	**8,313**	**$**	**8,169**

d) Sail Natural Resources Loan

On December 29, 2021, the Company executed a loan agreement ("Sail Loan") with Sail Natural Resources LP ("Sail") whereby Sail will provide a US$5 million loan facility to Altaley, with proceeds to be used to fund the final costs of construction and working capital at the Company's Tahuehueto project. The Company received US$1.7 million on January 7, 2022 and US$645,000 in February 2022 for a total amount drawn from the facility of US$2.345 million. The loan is unsecured, has a term of 4 years, bears interest at 13.5% per annum, and is payable in 12 quarterly installments commencing March 10, 2023.

The continuity of the Sail Loan is as follows:

		Amount
Balance, December 31, 2021	$	-
Disbursements, net of transaction fees		2,906
Interest accrued		60
Foreign currency movement		(39)
Balance, March 31, 2022	**$**	**2,927**

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

10. SHORT AND LONG-TERM DEBT (continued)

		March 31, 2022		December 31, 2021
Current portion	$	276	$	-
Long term portion		2,651		-
Balance	**$**	**2,927**	**$**	**-**

11. EMPRESS ROYALTY STREAM

On April 14, 2021, the Company entered into a silver stream agreement (the “Stream Agreement”) with Empress Royalty Corp. (“Empress”) in which Altaley will deliver to Empress silver credits purchased from a bullion bank in an amount equivalent to 100% of the first 1,250,000 ounces of payable silver contained within produced lead and zinc concentrates from the Tahuehueto mining project; thereafter, the stream percentage silver credit delivery will step down to 20% of the payable silver from produced lead and zinc concentrates. All streaming obligations will fully terminate after 10 years. To accommodate the arrangement, Empress has been accepted into the Trust Agreement defined in Note 10(b). Empress, to secure the Stream Agreement advanced a total of US$5 million with a first initial payment of US$2 million received on April 29, 2021, and the remaining US$3 million advance payment received on July 22, 2021. The streaming arrangement is subject to variable consideration and contains a significant financing component. As such, the Company recognizes a financing charge at each reporting period and grosses up the deferred revenue balance to recognize the significant financing element that is part of the arrangement.

The continuity of the stream is as follows:

		Amount
Balance, December 31, 2020	$	-
Upfront deposit, net of transaction fees		6,227
Accretion on streaming arrangements		683
Foreign currency movement		78
Balance, December 31, 2021		6,988
Accretion on streaming arrangements		321
Foreign currency movement		(105)
Balance, March 31, 2022	**$**	**7,204**

		March 31, 2022		December 31, 2021
Current portion	$	234	$	227
Long term portion		6,970		6,761
Balance	**$**	**7,204**	**$**	**6,988**

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

12. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Altaley's leases consist of machinery and equipment used to support operations at the Campo Morado and Tahuehueto mines. The Company additionally leases office space for its corporate offices located in Vancouver, BC, Canada, and site headquarters located in Mexico City and Durango, Mexico. As at March 31, 2022, the Company recorded $9,728 (December 31, 2021 – $10,021) of lease liabilities. The incremental borrowing annual rate for lease liabilities initially recognized as of January 1, 2019, was 8% to 15%.

The continuity of lease liabilities for the three months ended March 31, 2022, and year ended December 31, 2021 is as follows:

		Amount
Balance lease liabilities, December 31, 2020	$	1,621
Lease additions		9,554
Lease amendments		9
Lease cancelations		(733)
Lease payments		(528)
Interest expense		226
Interest paid		(226)
Foreign currency movement		98
Balance lease liabilities, December 31, 2021	$	10,021
Lease payments		(153)
Interest expense		255
Interest paid		(255)
Foreign currency movement		(140)
Balance, March 31, 2022	**$**	**9,728**

		March 31, 2022		December 31, 2021
Current portion	$	1,224	$	1,271
Long term portion		8,504		8,750
Balance	**$**	**9,728**	**$**	**10,021**

Future minimum lease payments (principal and interest) on the leases are as follows:

		Amount
2022	$	1,782
2023		1,095
2024		1,525
2025		1,498
Thereafter		9,986
Total minimum lease payments		15,886
Present value of minimum lease payments		(6,158)
Lease obligations, March 31, 2022	**$**	**9,728**

The Company does not face a significant liquidity risk with regard to its lease liability. Lease liability is monitored within the Company treasury function. The lease liability maturity dates range from 2022 to 2032.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

12. RIGHT OF USE ASSETS AND LEASE LIABILITIES (continued)

	Machinery & equipment	Offices	Vehicles	Right of use assets (Note 8)
Cost				
Balance, December 31, 2020	$ 998	$ 522	$ 149	$ 1,669
Additions	9,540	14	-	9,554
Change in estimate	-	9	-	9
Dispositions	(200)	-	(49)	(249)
Foreign currency movement	37	(21)	(23)	(7)
Balance, December 31, 2021	$ 10,375	$ 524	$ 77	$ 10,976
Foreign currency movement	(149)	(3)	(2)	(154)
Balance, March 31, 2022	**$ 10,226**	**$ 521**	**$ 75**	**$ 10,822**
Accumulated amortization				
Balance, December 31, 2020	$ 297	$ 159	$ 91	$ 547
Additions	374	110	33	517
Dispositions	(55)	-	(38)	(93)
Foreign currency movement	65	(17)	(18)	30
Balance, December 31, 2021	$ 681	$ 252	$ 68	$ 1,001
Additions	263	30	6	299
Foreign currency movement	(13)	(1)	(2)	(16)
Balance, March 31, 2022	**$ 931**	**$ 281**	**$ 72**	**$ 1,284**
Net book value				
Balance, December 31, 2021	**$ 9,694**	**$ 272**	**$ 9**	**$ 9,975**
Balance, March 31, 2022	**$ 9,295**	**$ 240**	**$ 3**	**$ 9,538**

13. SHARE CAPITAL

Common share transactions:

For the three months ended March 31, 2022

i. During the three months ended March 31, 2022, the Company issued 5,281,971 common shares for gross proceeds of $1,320 in connection with share purchase warrants exercised. As a result of the share purchase warrants exercised, Escorfin, a related party to the Company, was issued 2,926,898 common shares.

ii. On March 17, 2022, the Company announced a Private Placement, whereby the Company intends to sell up to 14,285,714 units from treasury (the "Units") at a price of $0.35 per Unit for aggregate gross proceeds of up to $5 million. Each Unit is comprised of one common share (a “Common Share”) and one-half of one common share purchase warrant (each whole such warrant, a “Warrant”). As at March 31, 2022, the Company received proceeds of $1,264 for share subscriptions in advance of closing the Private Placement.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

13. SHARE CAPITAL (continued)

For the three months ended March 31, 2021

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

   Escorfin, a related party to the Company, acquired 500,000 Units.

   In connection with the above private placement, the Company incurred $478 of finders' fees and $28 of legal fees.

ii. During the three months ended March 31, 2021, the Company issued 2,903,335 common shares for gross proceeds of $377 in connection with stock options exercised. The fair value of the options exercised was $377 and was transferred from the equity reserves and recorded against share capital.

14. EQUITY RESERVES

a) Share-based compensation

The Company has a stock option plan (the "Plan") providing for the issuance of stock options to directors, officers, employees and other service providers enabling them to acquire up to 10% of the issued and outstanding common shares 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. Stock options can be granted for a maximum term of 10 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to one third on the date of the grant, one third after six months and one third on the first-year anniversary; this represents a total vesting period of 12 months.

The continuity of the number of stock options issued and outstanding is as follows:

	Number of stock options		Weighted average exercise price
Outstanding, December 31, 2020	8,692,166	$	0.36
Granted	9,325,000		0.34
Exercised	(3,006,668)		0.14
Cancelled	(3,464,065)		0.44
Expired	(988,100)		0.13
Outstanding, December 31, 2021 and March 31, 2022	**10,558,333**	**$**	**0.34**

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

14. EQUITY RESERVES (continued)

As at March 31, 2022, and December 31, 2021, the number of stock options outstanding and exercisable were:

	Outstanding				Exercisable
Expiry date	**Number of options**	**Exercise price**		**Remaining contractual life (years)**	**Number of options**
November 13, 2022	1,383,333	$	0.30	0.62	1,383,333
March 16, 2023	300,000		0.30	0.96	300,000
April 16, 2023	400,000		0.30	1.04	400,000
December 3, 2023	300,000		0.38	1.68	100,000
January 29, 2025	200,000		0.20	2.84	200,000
February 8, 2025	250,000		0.20	2.86	250,000
August 6, 2025	100,000		0.16	3.35	100,000
February 25, 2026	5,250,000		0.30	3.91	5,250,000
May 11, 2026	75,000		0.46	4.12	50,000
May 19, 2026	2,000,000		0.48	4.14	1,333,333
August 9, 2026	100,000		0.53	4.36	66,667
August 23, 2026	100,000		0.55	4.40	66,667
September 20, 2026	100,000		0.48	4.48	66,667
Outstanding, March 31, 2022	**10,558,333**				**9,566,667**

	Outstanding				Exercisable
Expiry date	**Number of options**	**Exercise price**		**Remaining contractual life (years)**	**Number of options**
November 11, 2022	1,383,333	$	0.30	0.86	1,383,333
March 16, 2023	300,000		0.30	1.21	200,000
April 16, 2023	400,000		0.30	1.29	400,000
December 3, 2023	300,000		0.38	1.92	100,000
January 29, 2025	200,000		0.20	3.08	133,333
February 8, 2025	250,000		0.20	3.11	166,667
August 6, 2025	100,000		0.16	3.60	100,000
February 25, 2026	5,250,000		0.30	4.16	3,500,000
May 11, 2026	75,000		0.46	4.36	50,000
May 19, 2026	2,000,000		0.48	4.38	1,333,333
August 9, 2026	100,000		0.53	4.61	33,333
August 23, 2026	100,000		0.55	4.65	33,333
September 20, 2026	100,000		0.48	4.72	33,333
Outstanding, December 31, 2021	**10,558,333**				**7,466,666**

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees, and others providing similar services. During the three months ended March 31, 2022, an amount of $179 (March 31, 2021 – $481) was expensed as share-based compensation, which includes amounts expensed through mine production costs and business promotion of $8 and $19, respectively (March 31, 2021 – $62 and $137). Additionally, $6 (March 31, 2021 – $53) was capitalized to the

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

14. EQUITY RESERVES (continued)

Tahuehueto mineral interest and development asset. The portion of share-based compensation recorded is commensurate with the vesting terms of the options.

The fair value of the stock options granted during the three months ended March 31, 2022, and year ended December 31, 2021, were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

		2022		2021
Risk-free interest rate		-		0.67%
Expected forfeiture rate		-		Nil
Stock price volatility		-		119%
Expected life (in years)		-		3.94
Weighted average fair value	$	-	$	0.29

The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on the Government of Canada benchmark bond yields and treasury bills with a remaining term that approximates the expected life of the stock options.

b) Share purchase warrants

The continuity of the number of share purchase warrants outstanding is as follows:

	Warrants outstanding		Exercise price
Outstanding, December 31, 2020	44,890,909	$	0.16
Issued	26,700,000		0.31
Exercised	(6,287,250)		0.24
Outstanding, December 31, 2021	65,303,659	$	0.21
Exercised	(5,281,971)		0.25
Outstanding, March 31, 2022	**60,021,688**	**$**	**0.21**

Outstanding				
Expiry date	**Granted**		**Exercise price**	**Remaining contractual life (years)**
May 27, 2022	1,163,615		0.25	0.2
July 9, 2022	6,645,573		0.15	0.3
March 29, 2023	24,712,500		0.30	1.0
July 1, 2023	1,500,000		0.48	1.3
October 16, 2023	11,000,000		0.18	1.5
June 30, 2024	15,000,000		0.09	2.3
	60,021,688	**$**	**0.21**	**1.3**

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

15. FINANCE COSTS

Finance costs are primarily related to interest and accretion on the Company's debt facilities, lease liabilities, and provisions for site reclamation and closure. The Company's finance costs during the three months ended March 31, 2022 and 2021 are summarized as follows:

			For the three months ended,		
	Notes		March 31, 2022		March 31, 2021
Interest on debt*	9, 10	$	294	$	288
Bank fees and penalties			56		64
Interest on lease liabilities	12		8		5
Amortization of deferred finance costs	10		266		136
Accretion of provision for site reclamation and closure			78		115
Accretion on streaming arrangements	11		321		-
Total finance costs		**$**	**1,023**	**$**	**608**

*Finance costs for interest on debt include $55 of non-cash accretion for the three months ended March 31, 2022 (March 31, 2021 – $nil).

16. SUPPLEMENTAL CASH FLOW INFORMATION

		For the three months ended,		
		March 31, 2022		March 31, 2021
Accounts payable and accrued liabilities included in:				
i) mineral interest and development asset	$	(1,029)	$	116
ii) plant and equipment, net		1,188		-
Interest of long-term debt capitalized as mineral interest and development asset		861		415
Depreciation capitalized as mineral interest and development assets		294		248
Right of use of assets amortization capitalized		269		5
Fair value of stock options exercised		-		377

17. EARNINGS PER SHARE

Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share adjusts basic net earnings per share for the effects of potential dilutive common shares.

		For the three months ended,		
		March 31, 2022		March 31, 2021
(Loss) income attributable to common shareholders	$	(155)	$	3,802
Weighted average number of shares basic		261,522,345		183,119,346
Weighted average number of shares diluted		261,522,345		263,053,587
Basic (loss) earnings per share	$	0.00	$	0.02
Diluted (loss) earnings per share	$	0.00	$	0.01

The Company incurred a net loss for the period ended March 31, 2022, therefore all outstanding stock options and share purchase warrants have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive. No stock options or share purchase warrants were anti-dilutive as at March 31, 2021 and thus none were excluded from the diluted weighted average number of shares for the three months then ended.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

18. RELATED PARTY BALANCES AND TRANSACTIONS

a) Compensation of key management personnel

Key management personnel include members of the Board of Directors and officers of the Company. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

		For the three months ended,		
		March 31, 2022		**March 31, 2021**
Short-term benefits	$	248	$	140
Share-based compensation		123		222
	$	371	$	362

b) Related party balances

As at March 31, 2022, directors and officers or their related companies were owed $157 (December 31, 2021 – $168) included in accounts payable and accrued liabilities mainly in respect to reimbursement of expenses and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

c) Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. ("Escorfin")

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin (Note 10(a)). Escorfin is a private equity fund that specializes in real estate development, energy innovations, and tourism investment in Mexico.

The following summarizes the transactions and balances owing to Escorfin as at March 31, 2022 and December 31, 2021:

		March 31, 2022		**December 31, 2021**
Current portion	$	2,003	$	1,357
Long term portion		2,775		3,379
Balance	**$**	**4,778**	**$**	**4,736**

During the period ended March 31, 2022, the Company incurred interest in the amount of $113 (March 31, 2021 –$105) of which $nil was paid (March 31, 2021 – $nil).

During the three months ended March 31, 2022, no Units were acquired by the related party via private placement (March 31, 2021 – 500,000 Units).

During the three months ended March 31, 2022, the Company issued 2,926,898 common shares to Escorfin as a result of the share purchase warrants exercised.

d) Bursametrica Casa de Bolsa, S.A. de C.V. ("Bursametrica")

On April 4, 2021, the Company entered into a service agreement with Bursametrica whereby the financial institution would provide foreign exchange services primarily for the exchange of funds denominated in US dollars for funds denominated in the Mexican Peso. A director was deemed to have economic influence in the financial institution. During the three months ended March 31, 2022, the amount exchanged for currency denominated in the Mexican Peso at exchange rates at the time of the conversion was $9,593 (US$7.5 million) (March 31, 2021 - $nil). As at March 31, 2022, the amount owed to Bursimetrica was $nil (December 31, 2021 - $nil).

19. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. 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.

Marketable securities are classified as level one and recorded at fair value using quoted market prices. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, obligation under share purchase agreement, and short-term debt approximated their fair value because of the short-term nature of these instruments. The fair values of the Company's long-term debt approximated their carrying value as their interest rates are comparable to market interest rates.

Trade receivables from provisional sales of metals concentrates include provisional pricing, and final price and assay adjustments. Derivative instruments are forward arrangements that were valued using pricing models, which require a variety of inputs, such as expected zinc and lead prices, and foreign exchange rates. The trade receivables from sales of concentrate are derivative instruments and are valued using observable market commodity prices and thereby classified within Level 2 of the fair value hierarchy.

The Company's activities expose it to financial risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, currency risk, interest rate risk and commodity price risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and marketable securities are held through large Canadian, international, and foreign national financial institutions. The Company's accounts receivable consists of trade receivables from concentrate sales and taxes receivable from federal government agencies. Trade receivables are held with one large international metals trading company. The Company mitigates this risk by transacting only with reputable financial institutions and requiring provisional payments of 90% of the value of the concentrate shipped to a single well-known buyer. For other receivables, the Company recognizes expected credit losses when there has been a significant increase in credit risk since initial recognition, which is determined by a review of overdue amounts, comparing the risk of default at the reporting date and at the date of initial recognition, and an assessment of relevant historical and forward-looking quantitative and qualitative information. For those balances that are beyond 90 days overdue it is presumed to be an indicator of a significant increase in credit risk. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

19. FINANCIAL INSTRUMENTS (continued)

or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. See Note 1 for further discussion.

c) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Significant market risks to which the Company is exposed are as follows:

i) Foreign currency risk

The Company is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency. The Company operates in foreign jurisdictions, which use both the Mexican peso (MXN$) and United States dollar (US$). The Company does not use derivative instruments to reduce upward, and downward risk associated with foreign currency fluctuations.

		Amounts US Dollars		**Amounts Mexican Peso**
Financial assets denominated in foreign currencies	US$	3,158,208	MXN$	217,516,574
Financial liabilities denominated in foreign currencies		(43,598,459)		(308,711,344)
Net exposure	US$	(40,440,251)	MXN$	(91,194,770)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by $344.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by $219.

ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At March 31, 2022 and December 31, 2021, the Company's long-term debts are at fixed and floating rates and the Company has not entered into any financial derivatives or other financial instruments to hedge against this risk. The Company's loan agreements bear interest at variable and fixed rates. Interest risk exposure is in relation to variable interest rates such as LIBOR (3M) and (1 year) rates and a variation of 1% on the interest rate would change comprehensive income by approximately $213. Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

d) Commodity price risk

The Company is exposed to commodity and equity price risk given its revenue is derived from the sale of metal concentrates, the prices for which have been historically volatile. Consequently, the economic viability of the Company's mineral interest and development assets may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced at the period ended March 31, 2022, a 10% change in zinc and lead prices would result in an increase/decrease of approximately $752 and $128, respectively in revenues.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

20. SEGMENTED INFORMATION

The Company is engaged in mining, exploration, and development of mineral properties in Mexico. The Company operates in one industry and has four operating segments. The operating segments are managed separately based on the nature of operations. Mining operations consists of the Campo Morado mine, which is currently operational and producing, and development stage asset for the Tahuehueto mining project.

Information by geographical areas is as follows:

	Canada	Mexico	Total
Current assets	$ 1,268	$ 26,412	$ 27,680
Non-current assets			
Mineral interest and development assets	-	44,109	44,109
Property, plant, and equipment, net	73	41,134	41,207
Other assets and long term accounts receivable	1,530	15	1,545
Total assets, March 31, 2022	**$ 2,871**	**$ 111,670**	**$ 114,541**
Current liabilities	$ 4,565	$ 32,611	$ 37,176
Non-current liabilities	11,192	33,393	44,585
Total liabilities, March 31, 2022	**$ 15,757**	**$ 66,004**	**$ 81,761**

	Canada	Mexico	Total
Current assets	$ 714	$ 27,914	$ 28,628
Non-current assets			
Mineral interest and development assets	-	40,699	40,699
Property, plant, and equipment, net	87	37,568	37,655
Other assets and long term accounts receivable	1,808	15	1,823
Total assets, December 31, 2021	**$ 2,609**	**$ 106,196**	**$ 108,805**
Current liabilities	$ 4,280	$ 27,462	$ 31,742
Non-current liabilities	9,156	37,236	46,392
Total liabilities, December 31, 2021	**$ 13,436**	**$ 64,698**	**$ 78,134**

During the three months ended March 31, 2022, and 2021, the Company sold its commercial and pre-commercial production to one customer accounting for 100% of revenues and pre-commercial sales. As at March 31, 2022 trade receivables of $699 (December 31, 2021 – $1,629) were receivable entirely from this one customer. Revenues and pre-commercial sales if any, all were earned within Mexico.

Unaudited - (Expressed in thousands of Canadian dollars, unless otherwise stated)

20. SEGMENTED INFORMATION (continued)

Operating segments are as follows:

March 31, 2022	Campo Morado	Real de la Bufa	Other	Altaley Mining	Total
	Mexico	Mexico	Mexico	Canada	
Revenue, net	$ 12,728	$ -	$ -	$ -	$ 12,728
Production costs and royalties	(11,201)	-	-	(8)	(11,209)
Depletion and amortization	(304)	-	-	-	(304)
Mine operating earnings	$ 1,223	$ -	$ -	$ (8)	$ 1,215
General expenses	(323)	(161)	-	(950)	(1,434)
Other income (expenses)	32	393	266	(627)	64
Income tax	-	-	-	-	-
Net income (loss) for the period	**$ 932**	**$ 232**	**$ 266**	**$ (1,585)**	**$ (155)**

March 31, 2021	Campo Morado	Real de la Bufa	Other	Altaley Mining	Total
	Mexico	Mexico	Mexico	Canada	
Revenue, net	$ 13,735	$ -	$ -	$ -	$ 13,735
Production costs and royalties	(8,318)	-	-	-	(8,318)
Depletion and amortization	(120)	-	-	-	(120)
Mine operating earnings	$ 5,297	$ -	$ -	$ -	$ 5,297
General expenses	(501)	(46)	-	(802)	(1,349)
Other income (expenses)	(593)	527	(123)	43	(146)
Net income (loss) for the period	**$ 4,203**	**$ 481**	**$ (123)**	**$ (759)**	**$ 3,802**

21. SUBSEQUENT EVENTS

On April 22, 2022, the Company closed a first tranche of the Private Placement on the issuance of 12,116,296 Units (Note 13) for gross proceeds of $4,241, inclusive of subscriptions received in advance. An additional 700,000 Units were issued following the closure of the first tranche, for gross proceeds of $245.

Between April 1, 2022, and May 27, 2022, the Company issued 713,700 common shares for gross proceeds of $179 through the exercise of 713,700 share purchase warrants.

On April 1, 2022, the Company and Trafigura agreed to amend the terms of the Trafigura Loans in which the maturity dates of the Loan Agreement Campo and Loan Agreement Real were extended to December 31, 2023 and December 31, 2024, respectively, with 26 equal instalments beginning August 30, 2021 and three month principal grace period between April 1, 2022 and June 30, 2022 for the Loan Agreement Campo and 32 equal instalments beginning February 1, 2022 with a three month principal grace period between April 1, 2022 and June 30, 2022 for the Loan Agreement Real.

On May 1, 2022, the Company and Nyrstar agreed to amend the terms of the Campo Morado Loan Agreement in which the maturity dates of the Campo Morado Loan Agreement were extended to December 2023, with 29 equal instalments beginning August 2021 and three-month principal grace period between May 2022 and July 2022.

On May 26, 2022, the Company and Escorfin agreed to amend the terms of the LOC Agreement in which the maturity dates of the LOC Agreement were extended to September 1, 2024, with 24 equal instalments beginning on October 1, 2022.