



ALTALEY MINING CORPORATION
(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2022 and 2021

UNAUDITED
Prepared by Management

(Expressed in thousands of Canadian dollars)

ALTALEY MINING CORPORATION

(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 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.

November 29, 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 September 30, 2022	As at December 31, 2021
Assets			
Cash		\$ 2,421	\$ 3,049
Marketable securities	4	-	3,909
Accounts receivable	5	10,955	8,451
Prepaid expenses and deposits		3,849	3,512
Inventories	6	10,336	9,707
		27,561	28,628
Mineral properties, plant and equipment	7	93,490	68,379
Right of use assets	8	9,837	9,975
Taxes receivable long-term	5	16	15
Other assets	10	1,060	1,808
		104,403	80,177
Total assets		\$ 131,964	\$ 108,805
Liabilities			
Accounts payable and accrued liabilities		\$ 25,687	\$ 16,492
Due to Breakwater Resources Ltd	7(b), 9	3,412	3,132
Short-term debt	10	18,929	10,620
Empress royalty stream	11	304	227
Current portion of lease liabilities	8	1,230	1,271
		49,562	31,742
Long-term due to Breakwater Resources Ltd	7(b), 9	849	2,356
Long-term debt	10	19,962	23,926
Long-term Empress royalty stream	11	8,066	6,761
Lease liabilities	8	9,119	8,750
Provision for site reclamation and closure		5,466	4,599
		43,462	46,392
Total liabilities		\$ 93,024	\$ 78,134
Equity			
Share capital	12	\$ 91,339	\$ 84,757
Share subscriptions received in advance	12	6,579	-
Equity reserves	13	11,978	11,803
Accumulated other comprehensive loss		1,333	(1,402)
Deficit		(72,289)	(64,487)
		38,940	30,671
Total liabilities and equity		\$ 131,964	\$ 108,805

Going concern (Note 1)
Subsequent events (Note 19)

Approved by the Board of Directors on November 29, 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 (Loss) Income and Comprehensive (Loss) Income
(Expressed in thousands of Canadian dollars, except shares and per share amounts)
Unaudited - Prepared by Management

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenues					
Gross sales		\$ 23,472	\$ 23,076	\$ 64,216	\$ 68,781
Treatment and selling costs		(8,632)	(5,364)	(22,739)	(18,854)
		14,840	17,712	41,477	49,927
Cost of Sales					
Production cost		\$ 12,808	\$ 7,254	\$ 34,725	\$ 23,743
Royalties		532	644	1,475	1,663
Depletion, depreciation, and amortization	7, 8	339	145	968	390
		13,679	8,043	37,168	25,796
Mine operating profit		1,161	9,669	4,309	24,131
General Expenses:					
Consulting fees, wages and benefits	16	\$ 1,262	\$ 524	\$ 2,485	\$ 1,632
Legal and professional fees		296	231	707	579
Office, rent and administration		235	1,375	784	2,334
Amortization of right-of-use assets	8	29	33	90	60
Regulatory, transfer agent and shareholder information		19	24	84	43
Travel, promotion and investor relations		164	142	724	608
Share-based compensation	7, 13, 16	6	339	206	1,055
		2,011	2,668	5,080	6,311
Other (income) expenses:					
Interest income		\$ (4)	\$ (212)	\$ (226)	\$ (425)
Change in fair value of financial instruments	4, 9	2,637	135	2,716	1,343
Finance costs	14	1,130	731	3,243	1,873
Other income and expenses, net		65	1,912	153	(296)
Foreign exchange (gain)		918	151	1,145	(330)
		4,746	2,717	7,031	2,165
Net (loss) income for the period		\$ (5,596)	\$ 4,284	\$ (7,802)	\$ 15,655
Other comprehensive (loss) income					
Items that will be reclassified subsequently to profit or (loss)					
Foreign currency translation adjustment		2,036	281	2,735	298
Total items that may be reclassified subsequently to profit or (loss)		2,036	281	2,735	298
Total net comprehensive (loss) income for the period		\$ (3,560)	\$ 4,565	\$ (5,067)	\$ 15,953
Weighted average number of common shares outstanding					
Basic		278,217,682	253,166,462	271,344,189	229,684,783
Diluted		278,217,682	286,989,017	271,344,189	261,907,338
(Loss) earnings per share ("EPS")					
Basic EPS		\$ (0.02)	\$ 0.02	\$ (0.03)	\$ 0.07
Diluted EPS		\$ (0.02)	\$ 0.01	\$ (0.03)	\$ 0.06

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	Funds advance for a potential rights offering guarantee	Equity reserves	Accumulated other comprehensive (loss) income	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	12	50,400,000	9,574	–	–	–	–	9,574
Shares issued upon settlement of obligations	9, 12	14,600,000	2,920	–	–	–	–	2,920
Bonus shares and warrants issued on modification of debt	10, 12	500,000	385	–	812	–	–	1,197
Stock options exercised	12, 13	3,073,335	428	–	–	–	–	428
Fair value of stock options allocated to share capital on exercise		–	401	–	(401)	–	–	–
Warrants exercised	12, 13	3,165,000	687	–	–	–	–	687
Fair value of warrants allocated to share capital on exercise		–	208	–	(208)	–	–	–
Share-based compensation	13	–	–	–	1,413	–	–	1,413
Income and comprehensive income for the period		–	–	–	–	298	15,655	15,953
Balance as at September 30, 2021		254,504,954	\$ 79,920	\$ –	\$ 12,207	\$ (1,569)	\$ (85,097)	\$ 5,461
Balance as at December 31, 2021		257,560,537	\$ 84,757	\$ –	\$ 11,803	\$ (1,402)	\$ (64,487)	\$ 30,671
Shares issued on private placement, net of issuance cost	12	14,327,714	4,836	–	–	–	–	4,836
Funds received in advance for a potential rights offering guarantee		–	–	6,579	–	–	–	6,579
Warrants exercised	12	7,056,171	1,659	–	–	–	–	1,659
Fair value of equity instruments allocated to share capital on exercise		–	6	–	(6)	–	–	–
Fair value of equity instruments allocated to share capital on expiry or cancellation		–	81	–	(81)	–	–	–
Share-based compensation	13	–	–	–	262	–	–	262
Loss and comprehensive loss for the period		–	–	–	–	2,735	(7,802)	(5,067)
Balance as at September 30, 2022		278,944,422	\$ 91,339	\$ 6,579	\$ 11,978	\$ 1,333	\$ (72,289)	\$ 38,940

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 September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Cash provided by (used in):					
Operating activities:					
(Loss) income for the period		\$ (5,596)	\$ 4,284	\$ (7,802)	\$ 15,655
Items not involving cash:					
Accretion for site reclamation and closure		142	118	416	350
Depletion, depreciation, and amortization	7	339	145	968	390
Amortization of right-of-use assets	8	29	33	90	60
Share-based compensation	13	12	367	255	1,311
Amortization of deferred financing costs	10	266	62	803	333
Accretion on Empress Royalty stream	11	246	–	1,021	–
Amortization of deferred revenue	11	(264)	–	(264)	–
Revaluation of financial instruments	4, 9	2,637	(164)	2,716	(2,149)
Accrued interest on debt	9, 10	359	641	993	1,162
(Gain) loss on modification of loans	9, 10	10	299	197	299
Changes in non-cash working capital:					
Restricted funds		–	(4,046)	–	(4,046)
Accounts receivable and other assets		162	1,617	(1,607)	(1,714)
Prepaid expenses and deposits		734	(1,161)	(37)	(1,840)
Inventories		(60)	(2,238)	269	(2,359)
Accounts payable and accrued liabilities		404	(4,470)	3,830	(9,767)
Cash (used in) provided by operating activities		(580)	(4,513)	1,848	(2,315)
Investing activities:					
Plant and equipment, net	7, 8	(2,819)	(4,364)	(8,779)	(7,864)
Exploration and evaluation assets	7	(494)	(353)	(3,767)	(2,690)
Redeemed marketable securities	4	1,293	–	1,293	–
Cash (used in) investing activities		(2,020)	(4,717)	(11,253)	(10,554)
Financing activities:					
Shares issued on financing, net of issuance costs	12	(35)	(28)	4,836	9,574
Funds advanced for a potential rights offering guarantee	12	6,579	–	6,579	–
Interest paid	8, 9, 10	(1,189)	(2,694)	(2,576)	(2,793)
Debt acquired	10(c)	211	7,134	3,130	7,134
Proceeds in connection to warrants and/or stock options exercised		157	239	1,659	1,115
Proceeds from Empress Royalty stream, net of transaction costs	11	–	3,891	–	6,370
Repayment of lease liabilities	8	(156)	(120)	(465)	(304)
Repayment of debt	9, 10	(2,588)	(1,170)	(4,993)	(1,170)
Cash provided by financing activities		2,979	7,252	8,170	19,926
Effect of foreign exchange rate changes on cash		507	536	607	152
Increase (decrease) in cash		886	(1,442)	(628)	7,209
Cash, beginning of the period		1,535	8,908	3,049	257
Cash, end of the period		\$ 2,421	\$ 7,466	\$ 2,421	\$ 7,466

Supplemental cash flow information (Note 15)

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

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

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 Bentall #5, Suite 1008 – 550 Burrard Street, Vancouver, BC V6C 2B5. 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. 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 exploration & evaluation assets or mineral properties, 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 September 30, 2022 of \$22,001 (December 31, 2021 - \$3,114) and an accumulated deficit of \$72,289 (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 and nine months ended September 30, 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

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

2. BASIS OF PRESENTATION (continued)

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 November 29, 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 operations and cash flows have been included. Operating results for the three and nine months ended September 30, 2022, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

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	(2,716)
Redemption of marketable securities	(1,293)
Foreign currency movement	100
Balance, September 30, 2022	\$ -

The Company previously held senior bond trusts which were classified as FVTPL and recorded at fair value using the quoted market prices until disposition and are therefore classified as level 1 within the fair value hierarchy. The bonds entitled the Company to a coupon at an interest rate of 11% per annum, payable every six months. The investments which were held in Mexico had maturity date of August 2023 and were disposed of in its entirety on August 9, 2022 for proceeds of \$1,293.

5. ACCOUNTS RECEIVABLE

	September 30, 2022	December 31, 2021
Trade receivables	\$ 655	\$ 1,629
Value added taxes and other taxes receivable	9,936	6,655
Other receivables	364	167
Total accounts receivable	\$ 10,955	\$ 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 period ended September 30, 2022, the Company disclosed as a long-term receivable, value added taxes generated in Mexico based on the expected timing of realization. As at September 30, 2022 the Company has \$16 (December 31, 2021 – \$15) in valued added taxes receivable included in non-current assets.

6. INVENTORIES

	September 30, 2022	December 31, 2021
Materials and supplies	\$ 7,464	\$ 6,146
Concentrates	1,977	1,263
Stock pile ore	895	2,298
Total inventories	\$ 10,336	\$ 9,707

During the three and nine months ended September 30, 2022, the Company recognized \$4,950 and \$14,685, respectively (September 30, 2021 – \$4,245 and \$11,886) of inventory as an expense through cost of sales.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

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 \$276 (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 exploration & evaluation assets 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.

Included in exploration & evaluation assets for the three and nine months ended September 30, 2022 is \$525 and \$2,751, respectively (September 30, 2021 – \$463 and \$1,349) of capitalized borrowing costs based on a capitalization rate of 100%. Borrowing costs capitalized to exploration & evaluation assets include (\$204) and \$58 of non-cash accretion for the three and nine months ended September 30, 2022 (September 30, 2021 – \$nil and \$nil).

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\$3.1 million remains outstanding as at September 30, 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.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT (continued)

c) Mineral properties, plant and equipment (MPP&E)

	Exploration & evaluation assets	Mineral properties	Land	Mine plant, machinery & equipment	Construction in progress	Total MPP&E
Cost						
Balance, December 31, 2020	\$ 16,585	\$ -	\$ 3,182	\$ 12,432	\$ 3,405	\$ 35,604
Additions	5,653	-	-	1,972	11,426	19,051
Change in estimate	1,574	(2,434)	-	-	-	(860)
Transfers	-	-	-	980	(980)	-
Reversal of impairment	-	16,340	-	-	-	16,340
Foreign currency movement	425	2,556	(12)	(26)	108	3,051
Balance, December 31, 2021	\$ 24,237	\$ 16,462	\$ 3,170	\$ 15,358	\$ 13,959	\$ 73,186
Additions	11,055	-	-	335	9,228	20,618
Transfers	-	-	-	3,601	(3,601)	-
Foreign currency movement	2,000	1,336	257	1,704	1,582	6,879
Balance September 30, 2022	\$ 37,292	\$ 17,798	\$ 3,427	\$ 20,998	\$ 21,168	\$ 100,683
Accumulated depletion and amortization						
Balance, December 31, 2020	\$ -	\$ -	\$ -	\$ 3,078	\$ -	\$ 3,078
Depletion and amortization	-	-	-	1,723	-	1,723
Foreign currency movement	-	-	-	6	-	6
Balance, December 31, 2021	\$ -	\$ -	\$ -	\$ 4,807	\$ -	\$ 4,807
Depletion and amortization	-	490	-	1,379	-	1,869
Foreign currency movement	-	33	-	484	-	517
Balance September 30, 2022	\$ -	\$ 523	\$ -	\$ 6,670	\$ -	\$ 7,193
Net book value						
Balance, December 31, 2021	\$ 24,237	\$ 16,462	\$ 3,170	\$ 10,551	\$ 13,959	\$ 68,379
Balance September 30, 2022	\$ 37,292	\$ 17,275	\$ 3,427	\$ 14,328	\$ 21,168	\$ 93,490

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2022, and 2021

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	Machinery & equipment		Offices		Vehicles		Total ROU assets	
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
Change in estimate		-		15		-		15
Dispositions		-		-		(78)		(78)
Foreign currency movement		842		23		1		866
Balance, September 30, 2022	\$	11,217	\$	562	\$	-	\$	11,779
Accumulated amortization								
Balance, December 31, 2020	\$	297	\$	159	\$	91	\$	547
Amortization		374		110		33		517
Dispositions		(55)		-		(38)		(93)
Foreign currency movement		65		(17)		(18)		30
Balance, December 31, 2021	\$	681	\$	252	\$	68	\$	1,001
Amortization		801		88		9		898
Dispositions		-		-		(78)		(78)
Foreign currency movement		109		11		1		121
Balance, September 30, 2022	\$	1,591	\$	351	\$	-	\$	1,942
Net book value								
Balance, December 31, 2021	\$	9,694	\$	272	\$	9	\$	9,975
Balance, September 30, 2022	\$	9,626	\$	211	\$	-	\$	9,837

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, Mexico. As at September 30, 2022, the Company recorded \$10,349 (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%.

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

The continuity of lease liabilities for the period ended September 30, 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 cancellations		(733)
Lease payments		(528)
Interest expense		226
Interest paid		(226)
Foreign currency movement		98
Balance lease liabilities, December 31, 2021	\$	10,021
Lease amendments		15
Lease payments		(465)
Interest expense		764
Interest paid		(764)
Foreign currency movement		778
Balance, September 30, 2022	\$	10,349

	September 30, 2022		December 31, 2021	
Current portion	\$	1,230	\$	1,271
Long-term portion		9,119		8,750
Balance	\$	10,349	\$	10,021

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

		Amount
2022	\$	1,007
2023		1,203
2024		1,678
2025		1,647
Thereafter		10,953
Total minimum lease payments		16,488
Present value of minimum lease payments		(6,139)
Lease obligations, September 30, 2022	\$	10,349

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

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9. DUE TO BREAKWATER RESOURCES LTD.

As at September 30, 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 due to Breakwater Resources Ltd.
Balance, December 31, 2020	\$ 8,891	\$	5,094	\$	13,985
Interest accrued	706		-		706
Principal paid	(1,452)		-		(1,452)
Interest paid	(2,556)		-		(2,556)
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	371		-		371
Principal paid	(1,592)		-		(1,592)
Interest paid	(342)		-		(342)
Gain on modification	(4)		-		(4)
Foreign currency movement	340		-		340
Balance, September 30, 2022	\$ 4,261	\$	-	\$	4,261

		September 30, 2022		December 31, 2021
Current portion	\$	3,412	\$	3,132
Long term portion		849		2,356
Balance	\$	4,261	\$	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\$3.1 million remains outstanding as at September 30, 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.

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9. DUE TO BREAKWATER RESOURCES LTD. (continued)

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 above loan amendments resulted in a substantial modification of terms as outlined above. As a result of the amendment of terms, during the year ended December 31, 2021, 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.

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.

On May 1, 2022, the Company and Breakwater 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 twenty-six equal instalments beginning August 2021 with a three-month principal grace period between May 2022 and July 2022. As a result of the amendment of terms, during the three and nine months ended September 30, 2022, the Company recognized a gain on the non-substantial modification in other income and expenses totaling \$nil and \$4, respectively, impacting the valuation in relation to the Campo Morado Loan Agreement. As at September 30, 2022, the unamortized balance of the collective fair value discount is \$12 (December 31, 2021 – \$16).

10. SHORT AND LONG-TERM DEBT

The continuity of the short and long-term debt balances are as follows:

	LOC a)	Loan agreement Campo b)	Loan agreement Real b)	MTLF c)	Calu Loan d)	Total short and long- term debt
Balance, December 31, 2020	\$ 4,127	\$ 5,013	\$ 18,384	\$ 657	\$ -	\$ 28,181
Disbursements, net of transaction fees	-	-	-	7,146	-	7,146
Interest accrued	483	365	1,485	456	-	2,789
Principal paid	-	(970)	-	(35)	-	(1,005)
Interest paid	-	(124)	(587)	(137)	-	(848)
(Gain) loss on extinguishment	139	(312)	(1,352)	-	-	(1,525)
Foreign currency movement	(13)	(35)	(226)	82	-	(192)
Balance, December 31, 2021	\$ 4,736	\$ 3,937	\$ 17,704	\$ 8,169	\$ -	\$ 34,546
Disbursements	-	-	-	-	3,130	3,130
Interest accrued	384	309	1,624	366	292	2,975
Principal paid	-	(1,192)	(2,209)	-	-	(3,401)
Interest paid	-	(169)	(1,117)	-	(185)	(1,471)
(Gain) loss on modification	(177)	(8)	376	-	10	201
Foreign currency movement	396	247	1,359	688	221	2,911
Balance, September 30, 2022	\$ 5,339	\$ 3,124	\$ 17,737	\$ 9,223	\$ 3,468	\$ 38,891
Less: short-term obligation	\$ 2,946	\$ 2,495	\$ 7,940	\$ 4,541	\$ 1,007	\$ 18,929
Long-term debt	2,393	629	9,797	4,682	2,461	19,962
Balance, September 30, 2022	\$ 5,339	\$ 3,124	\$ 17,737	\$ 9,223	\$ 3,468	\$ 38,891

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10. SHORT AND LONG-TERM DEBT (continued)

Current portion of debt	\$	1,357	\$	2,215	\$	5,306	\$	1,742	\$	-	\$	10,620
Long-term debt		3,379		1,722		12,398		6,427		-		23,926
Balance, December 31, 2021	\$	4,736	\$	3,937	\$	17,704	\$	8,169	\$	-	\$	34,546

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 September 30, 2022 is \$655 (December 31, 2021 – \$996).

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. As a result of the amendment of terms, during the three and nine months ended September 30, 2022, the Company recognized a gain on the non-substantial modification in other income and expenses totaling \$nil and \$177, respectively, impacting the valuation in relation to the LOC Agreement. As at September 30, 2022, the unamortized balance of the fair value discount is \$149 (December 31, 2021 – \$nil).

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.

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10. SHORT AND LONG-TERM DEBT (continued)

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 Loan Agreement Campo and Loan Agreement Real (collectively 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 twenty-six equal instalments beginning August 30, 2021 for the Loan Agreement Campo and thirty-two 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 exploration & evaluation 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 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 twenty-six equal instalments beginning August 30, 2021 and a three-month principal grace period between April 1, 2022 and June 30, 2022 for the Loan Agreement Campo and thirty-two 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. As a result of the amendment of terms, during the three and nine months ended September 30, 2022, the Company recognized a gain on the non-substantial modification in other income and expenses totaling \$nil and \$8, respectively, impacting the valuation of the Loan Agreement Campo and a fair value loss of \$nil and \$376, respectively, impacting the valuation of the Loan Agreement Real.

As at September 30, 2022, the unamortized balance of the fair value discount on the Loan Agreement Campo and Loan Agreement Real is \$80 and \$239, respectively (December 31, 2021 – \$202 and \$1,063).

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10. SHORT AND LONG-TERM DEBT (continued)

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

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 cancellation 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 September 30, 2022 is \$405 (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.

d) Calu Loan

On December 29, 2021, the Company executed a loan agreement (“Calu Loan”) with Calu Opportunity Fund, LP (“Calu”) whereby Calu 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 twelve quarterly instalments commencing March 10, 2023.

On August 31, 2022, the Company and Calu agreed to amend the terms of the Calu Loan whereby US\$144,088 of interest accrued as of June 30, 2022 was capitalized to the loan principal. One payment of interest only on the outstanding amount shall be made on December 21, 2022, with thirty-seven blended principal and interest payments to be made monthly commencing December 21, 2022. As a result of the amendment of terms, during the three and nine months ended September 30, 2022, the Company recognized a loss on the non-substantial modification in other income and expenses totaling \$10, impacting the valuation in relation to the Calu Loan. As at September 30, 2022, the unamortized balance of the fair value modification is \$10 (December 31, 2021 – \$nil).

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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 of 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
Amortization of deferred revenue	(264)
Accretion on streaming arrangements	1,021
Foreign currency movement	625
Balance, September 30, 2022	\$ 8,370

	September 30, 2022	December 31, 2021
Current portion	\$ 304	\$ 227
Long-term portion	8,066	6,761
Balance	\$ 8,370	\$ 6,988

12. SHARE CAPITAL

Common share transactions:

For the period ended September 30, 2022

- i. On April 20, 2022, the Company closed the first tranche of a non-brokered private placement for gross proceeds of \$4,241. The Company issued 12,116,296 units (each, a “Unit”) of the Company at a price of \$0.35 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 \$0.55 per Common Share within twenty-four months from April 20, 2022 (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.

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12. SHARE CAPITAL (continued)

On May 12, 2022, the Company closed the second and final tranche of a non-brokered private placement, whereby gross proceeds of \$759 were raised through the issuance of 2,169,418 Units.

In connection with the above private placement, the Company incurred \$179 of share issue costs consisting of finders' fees of \$68, issuance of 42,000 finders' Units with a fair value of \$15, and legal fees of \$96.

- ii. During the period ended September 30, 2022, the Company issued 7,056,171 common shares for gross proceeds of \$1,659 in connection with share purchase warrants exercised. The fair value of the warrants exercised was \$6 and was transferred from equity reserves and recorded against share capital. As a result of the share purchase warrants exercised, Escorfin, a related party to the Company, was issued 3,633,098 common shares.

For the period ended September 30, 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 in \$478 of finders' fees and \$28 of legal fees.

- ii. 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 was settled with 14,600,000 common shares of Altaley valued at \$0.345 per common share.
- iii. On July 30, 2021, the Company issued 500,000 common shares to Escorfin, a related party to the Company, in part for its efforts in amending the terms of the LOC (Note 10(a)).
- iv. During the period ended September 30, 2021, the Company issued 3,073,335 common shares for gross proceeds of \$428 in connection with stock options exercised. The fair value of the options exercised was \$401 and was transferred from the equity reserves and recorded against share capital.
- v. During the period ended September 30, 2021, the Company issued 3,165,000 common shares for gross proceeds of \$687 in connection with share purchase warrants exercised. There was no fair value allocated to 2,165,000 of these share purchase warrants. The fair value of the remaining 1,000,000 warrants exercised was \$208 and was transferred from the equity reserves and recorded against share capital.

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13. 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	10,558,333	\$	0.34
Cancelled	(266,667)		0.37
Outstanding, September 30, 2022	10,291,666	\$	0.34

As at September 30, 2022, and December 31, 2021, the number of stock options outstanding and exercisable were:

Expiry date	Outstanding		Exercisable	
	Number of options	Exercise price	Remaining contractual life (years)	Number of options
November 13, 2022	1,383,333	\$ 0.30	0.1	1,383,333
March 16, 2023	300,000	0.30	0.5	300,000
April 16, 2023	400,000	0.30	0.5	400,000
December 3, 2023	300,000	0.38	1.2	200,000
January 29, 2025	200,000	0.20	2.3	200,000
February 8, 2025	250,000	0.20	2.4	250,000
August 6, 2025	100,000	0.16	2.9	100,000
February 25, 2026	5,083,333	0.30	3.4	5,083,333
May 11, 2026	75,000	0.46	3.6	75,000
May 19, 2026	2,000,000	0.48	3.6	2,000,000
August 9, 2026	100,000	0.53	3.9	100,000
August 23, 2026	100,000	0.55	3.9	100,000
Outstanding, September 30, 2022	10,291,666			10,191,666

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13. EQUITY RESERVES (continued)

Expiry date	Outstanding		Exercisable	
	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 and nine months ended September 30, 2022, an amount of \$13 and \$255, respectively was expensed as share-based compensation (September 30, 2021 – \$367 and \$1,311). Included in share-based payments are amounts expensed through mine operations of \$nil and \$8 (September 30, 2021 – \$31 and \$171) and business promotion of \$6 and \$41 (September 30, 2021 – \$nil and \$80), respectively for the three and nine months ended September 30, 2022. Additionally, during the three and nine months ended September 30, 2022, \$nil and \$6, respectively (September 30, 2021 – \$24 and \$177) was capitalized to the Tahuehueto exploration & evaluation asset. The portion of share-based compensation recorded is commensurate with the vesting terms of the options.

The Company has not granted any stock options during the period ended September 30, 2022. The fair value of the stock options granted during the year ended December 31, 2021, were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	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.

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13. EQUITY RESERVES (continued)

b) Share purchase warrants

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

	Warrants outstanding	Weighted average 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
Issued	7,163,857	0.55
Exercised	(7,056,171)	0.24
Expired	(6,034,988)	0.16
Outstanding, September 30, 2022	59,376,357	\$ 0.26

Expiry date	Outstanding		Remaining contractual life (years)
	Granted	Exercise price	
March 29, 2023	24,712,500	0.30	0.5
July 1, 2023	1,500,000	0.48	0.8
October 16, 2023	11,000,000	0.18	1.0
April 20, 2024	6,058,148	0.55	1.6
May 12, 2024	350,000	0.55	1.6
May 30, 2024	755,709	0.55	1.7
June 30, 2024	15,000,000	0.09	1.8
	59,376,357		

14. 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 and nine months ended September 30, 2022 and 2021 are summarized as follows:

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Interest on debt*	9, 10	\$ 352	\$ 355	\$ 972	\$ 858
Amortization of deferred finance costs	10	266	238	803	509
Accretion on streaming arrangements	11	358	-	1,021	-
Accretion of provision for site reclamation and closure		142	118	416	350
Interest on lease liabilities	8	7	11	21	30
Bank fees, penalties, and other		5	9	10	126
Total finance costs		\$ 1,130	\$ 731	\$ 3,243	\$ 1,873

*Finance costs for interest on debt include \$61 and \$144 of non-cash accretion for the three and nine months ended September 30, 2022, respectively (September 30, 2021 – \$63 and \$63).

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15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Accounts payable and accrued liabilities included in:				
i) exploration and evaluation assets	\$ 1,275	\$ (511)	\$ 2,683	\$ (627)
ii) plant and equipment, net	(963)	-	760	-
Interest on long-term debt capitalized as exploration and evaluation assets	644	471	2,374	886
Depreciation capitalized as exploration and evaluation assets	305	188	901	436
Right of use of assets amortization capitalized	247	59	786	64
Fair value of stock options exercised	-	21	-	398

16. 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:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Short-term benefits	\$ 863	\$ 224	\$ 1,370	\$ 581
Share-based compensation	-	135	162	536
	\$ 863	\$ 359	\$ 1,532	\$ 1,117

b) Related party balances

As at September 30, 2022, directors and officers or their related companies were owed \$791 (December 31, 2021 – \$168) included in accounts payable and accrued liabilities mainly in respect to directors' fees payable and 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 September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Debt current portion	\$ 2,946	\$ 1,357
Debt long term portion	2,393	3,379
Balance	\$ 5,339	\$ 4,736

During the three and nine months ended September 30, 2022, the Company incurred interest in the amount of \$148 and \$384, respectively (September 30, 2021 – \$149 and \$398) of which \$nil was paid (September 30, 2021 – \$nil and \$nil).

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16. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

During the three and nine months ended September 30, 2022, no Units were acquired by the related party via private placement (September 30, 2021 – nil and 500,000 Units).

During the three and nine months ended September 30, 2022, the Company issued nil and 3,633,098 common shares, respectively to Escorfin as a result of share purchase warrants exercised (September 30, 2021 – nil and nil).

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 and nine months ended September 30, 2022, the amount exchanged for currency denominated in the Mexican Peso at exchange rates at the time of the conversion was \$6,588 (US\$5.16 million) and \$22,192 (US\$17.29 million), respectively (September 30, 2021 - \$9,010 (US\$7.2 million) and \$16,932 (US\$13.6 million)). As at September 30, 2022, the amount owed to Bursametrica was \$nil (December 31, 2021 - \$nil).

17. 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, 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.

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17. FINANCIAL INSTRUMENTS (continued)

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 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	Mexican Peso
Financial assets denominated in foreign currencies	US\$	3,018,239	199,361,869
Financial liabilities denominated in foreign currencies		(49,730,632)	(362,999,483)
Net exposure	US\$	(46,712,393)	(163,637,614)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$504.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$107.

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17. FINANCIAL INSTRUMENTS (continued)

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 September 30, 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 \$212 (December 31, 2021 – \$228). 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 exploration & evaluation assets or mineral properties may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced at the period ended September 30, 2022, a 10% change in zinc, copper, or lead prices would result in an increase/decrease of approximately \$1,090, 600, and \$79, respectively in revenues (December 31, 2021 – \$71, \$nil, and \$20).

18. 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	\$	1,340	\$	26,221	\$ 27,561
Non-current assets					
Mineral properties, plant, and equipment, net		-		93,490	93,490
Right of use assets		46		9,791	9,837
Other assets and long term accounts receivable		1,060		16	1,076
Total assets, September 30, 2022	\$	2,446	\$	129,518	\$ 131,964
Current liabilities	\$	6,325	\$	43,237	\$ 49,562
Non-current liabilities		3,310		40,152	43,462
Total liabilities, September 30, 2022	\$	9,635	\$	83,389	\$ 93,024

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18. SEGMENTED INFORMATION (continued)

	Canada		Mexico		Total
Current assets	\$	714	\$	27,914	\$ 28,628
Non-current assets					
Mineral properties, plant, and equipment, net		-		68,379	68,379
Right of use assets		87		9,888	9,975
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 period ended September 30, 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 September 30, 2022 trade receivables of \$401 (December 31, 2021 – \$1,629) were receivable entirely from this one customer. Revenues and pre-commercial sales if any, all were earned within Mexico.

Operating segments are as follows:

September 30, 2022	Campo Morado	Real de la Bufo	Other	Altaley Mining	Total
	Mexico	Mexico	Mexico	Canada	
Revenue, net	\$ 40,593	\$ 884	\$ -	\$ -	\$ 41,477
Production costs and royalties	(34,211)	(1,989)	-	-	(36,200)
Depletion and amortization	(968)	-	-	-	(968)
Mine operating earnings	\$ 5,414	\$ (1,105)	\$ -	\$ -	\$ 4,309
General expenses	(987)	(651)	-	(3,442)	(5,080)
Other income (expenses)	(94)	(3,155)	(588)	(3,194)	(7,031)
Net income (loss) for the period	\$ 4,333	\$ (4,911)	\$ (588)	\$ (6,636)	\$ (7,802)

September 30, 2021	Campo Morado	Real de la Bufo	Other	Altaley Mining	Total
	Mexico	Mexico	Mexico	Canada	
Revenue, net	\$ 49,927	\$ -	\$ -	\$ -	\$ 49,927
Production costs and royalties	(25,246)	-	-	(160)	(25,406)
Depletion and amortization	(390)	-	-	-	(390)
Mine operating earnings	\$ 24,291	\$ -	\$ -	\$ (160)	\$ 24,131
General expenses	(1,754)	(1,137)	-	(3,420)	(6,311)
Other income (expenses)	(1,236)	(157)	(183)	(589)	(2,165)
Net income (loss) for the period	\$ 21,301	\$ (1,294)	\$ (183)	\$ (4,169)	\$ 15,655

19. SUBSEQUENT EVENTS

On October 27, 2022, the Company cancelled 15 million warrants exercisable at \$0.09 per Common Share.

On October 31, 2022, the Company arranged to issue 3,920,990 common shares at a deemed price of \$0.30 per common share in settlement of outstanding accounts payable and accrued liabilities.

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19. SUBSEQUENT EVENTS (continued)

On November 23, 2022, the Company received US\$1 million as an advance on a potential rights offering guarantee.