



ALTALEY MINING CORPORATION
(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2021 and 2020

UNAUDITED

(Expressed in thousands of Canadian dollars)

ALTALEY MINING CORPORATION

(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2021 and 2020

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.

August 30, 2021

Altaley Mining Corporation (Formerly Telson Mining Corporation)
Condensed Interim Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	As at June 30, 2021	As at December 31, 2020
Assets		
Current assets:		
Cash	\$ 8,908	\$ 257
Marketable securities (note 4)	4,041	4,271
Accounts receivable (note 5)	3,731	599
Prepaid expenses and deposits	2,402	1,759
Inventories (note 6)	5,938	5,980
	25,020	12,866
Non-current assets:		
Mineral interest and development assets (note 7)	18,585	16,585
Property, plant and equipment (note 8)	19,299	17,063
Taxes receivable long-term (note 5)	5,220	5,056
Other assets (note 10(e))	1,083	1,354
	44,187	40,058
Total assets	\$ 69,207	\$ 52,924
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,712	\$ 29,955
Obligation under share purchase agreement (note 7(a))	247	255
Current portion of lease liabilities (note 12)	334	1,355
Empress royalty stream (note 11)	2,479	–
Short-term debt (note 10)	28,090	27,650
Due to Nyrstar Mining Ltd (note 7(b) and 9)	10,628	13,985
	63,490	73,200
Non-current liabilities:		
Long-term debt (note 10 (e))	536	531
Lease liabilities (note 12)	328	266
Provision for site reclamation and closure	5,756	5,638
	6,620	6,435
Total liabilities	\$ 70,110	\$ 79,635
Deficiency		
Share capital (note 13)	\$ 79,113	\$ 65,317
Equity reserves (note 14)	11,215	10,591
Accumulated other comprehensive loss	(1,850)	(1,867)
Deficit	(89,381)	(100,752)
Total deficiency	(903)	(26,711)
Total liabilities and deficiency	\$ 69,207	\$ 52,924

Going concern (note 1)
Subsequent events (note 20)

Approved by the Board of Directors on August 30, 2021, 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 (Loss) and Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars, except shares and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Revenues				
Gross sales	\$ 24,489	\$ 6,608	\$ 45,705	\$ 14,335
Treatment and selling costs	(6,009)	(3,315)	(13,490)	(7,500)
	18,480	3,293	32,215	6,835
Cost of Sales				
Production cost	\$ 8,622	\$ 3,765	\$ 16,489	\$ 6,907
Royalties	568	98	1,019	231
Accretion of provision for site reclamation and closure	109	88	217	183
Depreciation and amortization (note 7 and 8)	125	98	245	207
	9,424	4,049	17,970	7,528
Mine operating profit (loss)	9,056	(756)	14,245	(693)
General Expenses:				
Consulting fees, wages and benefits (note 16)	\$ 526	\$ 1,005	\$ 1,108	\$ 2,254
Legal and professional fees	256	96	348	131
Office, rent and administration	652	255	959	378
Amortization of right-of-use assets (note 8 and 12)	22	12	27	55
Regulatory, transfer agent and shareholder information	16	5	19	21
Travel, promotion and investor relations	389	18	466	127
Share-based compensation (note 14 (a) and 16)	434	–	716	–
	2,295	1,391	3,643	2,966
Other (income) expense:				
Interest income and other	\$ (2)	\$ 63	\$ (213)	\$ (366)
Accretion of provision for site reclamation and closure	8	8	15	16
Change in fair value of marketable securities (note 4)	(56)	(326)	140	(467)
Interest expense and other	2,014	288	2,507	686
Other (income) expenses	(2,792)	–	(2,737)	–
Foreign exchange loss (gain)	21	2,371	(481)	2,792
	(807)	2,404	(769)	2,661
Total Income (loss)	\$ 7,568	\$ (4,551)	\$ 11,371	\$ (6,320)
Income tax expense	–	1	–	1
Net Income (loss) for the period	\$ 7,568	\$ (4,552)	\$ 11,371	\$ (6,321)
Other comprehensive income (loss)				
Items that will be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment	(63)	3,672	17	3,853
Total items that may be reclassified subsequently to profit or (loss)	(63)	3,672	17	3,853
Total comprehensive income (loss) for the period	\$ 7,505	\$ (880)	\$ 11,388	\$ (2,468)
Weighted average number of common shares outstanding				
Basic	242,988,172	159,174,062	217,372,389	155,730,343
Diluted	287,588,797	159,174,062	313,204,581	155,730,343
Earnings (loss) per share				
Basic earnings (loss) per share	\$ 0.03	\$ (0.03)	\$ 0.05	\$ (0.04)
Diluted earnings (loss) per share	\$ 0.03	\$ (0.03)	\$ 0.04	\$ (0.04)

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 Deficiency

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

	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, 2019	139,579,152	\$ 59,743	\$ 795	\$ 6,423	\$ (1,964)	\$ (89,128)	(24,131)
Subscriptions received in advance	–	–	1,543	–	–	–	1,543
Shares issued on private placement, net of issuance cost (note 13)	21,424,432	2,084	(2,142)	–	–	–	(58)
Finder's fees (note 13)	361,239	36	–	–	–	–	36
Fair value of warrants issued in private placements	–	(1,256)	–	1,256	–	–	–
Loss and comprehensive income for the period	–	–	–	–	3,853	(6,321)	(2,468)
Balance as at June 30, 2020	161,364,823	\$ 60,607	\$ 196	\$ 7,679	\$ 1,889	\$ (95,449)	(25,078)
Balance as at 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 (note 13)	50,400,000	9,602	–	–	–	–	9,602
Shares Issued upon settlement of obligations	14,600,000	2,920	–	–	–	–	2,920
Stock options exercised (note 13)	2,973,335	398	–	–	–	–	398
Warrants exercised (note 13)	2,052,500	478	–	–	–	–	478
Fair value of stock options allocated to share capital issued on exercise (note 13)	–	398	–	(398)	–	–	–
Share-based compensation (note 14)	–	–	–	1,022	–	–	1,022
Income and comprehensive income for the period	–	–	–	–	17	11,371	11,388
Balance as at June 30, 2021	252,792,454	79,113	–	11,215	(1,850)	(89,381)	(903)

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)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Cash (used in) provided by:				
Operating activities:				
Income (loss) for the period	\$ 7,568	\$ (4,552)	\$ 11,371	\$ (6,321)
Items not involving cash:				
Depreciation and amortization	125	98	245	207
Accretion for site reclamation and closure	117	96	232	199
Amortization of right-of-use assets	22	12	27	55
Share-based compensation	462	–	944	–
Amortization of deferred financing costs	135	–	271	–
Accrued interest on debt	223	288	521	686
Revaluation of marketable securities	(56)	(326)	140	(467)
Gain on settlement of VPP	(2,125)	–	(2,125)	–
Income tax expense	–	1	–	1
Changes in non-cash working capital:				
Accounts receivable and other assets	(2,433)	176	(3,331)	36
Prepaid expenses and deposits	(392)	(714)	(679)	(351)
Inventories	66	2,906	(121)	1,765
Accounts payable and accrued liabilities	(2,584)	(3,379)	(5,297)	(2,069)
Cash provided by (used in) operating activities	1,128	(5,394)	2,198	(6,259)
Investing activities:				
Plant and equipment, net	(3,428)	28	(3,500)	28
Mineral interest and development assets additions	(2,045)	(497)	(2,337)	(1,352)
Redeemed marketable securities	–	446	–	446
Cash used in investing activities	(5,473)	(23)	(5,837)	(878)
Financing activities:				
Shares issued on private placement, net of issuance costs	–	392	9,602	1,543
Share subscriptions received in advance	–	(24)	–	(24)
Interest paid	(37)	–	(99)	–
Proceeds in connection to warrants and/or stock options exercised	499	–	876	–
Empress royalty stream (note 11)	2,479	–	2,479	–
Repayment of right of use liabilities	(79)	33	(184)	(6)
Repayment of debt	–	–	–	–
Cash provided by financing activities	2,862	401	12,674	1,513
Effect of foreign exchange rate changes on cash	(402)	5,533	(384)	6,141
(Decrease) increase in cash	(1,885)	517	8,651	517
Cash, beginning of the period	10,793	145	257	145
Cash, end of the period	\$ 8,908	\$ 662	\$ 8,908	\$ 662

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 six months ended June 30, 2021, and 2020

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”.

a) 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 (note 20). Notwithstanding, subsequent to completing the financing with the Accendo Syndicate and placing Tahuehueto into commercial production there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. These conditions may cast significant doubt upon the Company’s ability to continue as a going concern. The Company has a working capital deficit as at June 30, 2021 of \$38,470 (December 31, 2020 - \$60,334) and an accumulated deficit of \$89,381 (December 31, 2020 - \$100,752). 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. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“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 consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 27, 2021.

(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

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 six months ended June 30, 2021, and 2020

2. BASIS OF PRESENTATION (continued)

(b) Basis of presentation (continued)

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, 2020. 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, 2020. 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, 2021.

(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, 2020.

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, 2020. 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 six months ended June 30, 2021, are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

4. MARKETABLE SECURITIES

	Amount
Balance, December 31, 2019	\$ 4,653
Redemption of marketable securities	(657)
Realized and unrealized gain	610
Foreign exchange movement	(335)
Balance, December 31, 2020	\$ 4,271
Realized and unrealized gain	(140)
Foreign exchange movement	(90)
Balance, June 30, 2021	\$ 4,041

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 six months ended June 30, 2021, and 2020

4. MARKETABLE SECURITIES (continued)

The Company holds senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at June 30, 2021 and are therefore classified as level 1 within the fair value hierarchy with an interest rate of 11% per annum, payable every six months. The investments are held in Mexico and their maturity date is in August 2023.

5. ACCOUNTS RECEIVABLE

	June 30, 2021	December 31, 2020
Trade receivables	\$ 3,402	\$ 241
Value added taxes and other taxes receivable	50	37
Other receivables	279	321
Total accounts receivable	\$ 3,731	\$ 599

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 June 30, 2021, the Company presented valued added taxes receivable in Mexico as long term based on the expected timing of realization. As at June 30, 2021 the Company has \$5,220 (December 31, 2020 – \$5,056) in valued added taxes receivable included in non-current assets.

6. INVENTORIES

	June 30, 2021	December 31, 2020
Materials and supplies	\$ 5,228	\$ 4,593
Concentrates	261	884
Stock pile ore	449	503
Total inventories	\$ 5,938	\$ 5,980

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 \$247 (December 31, 2019 – \$255 (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 yearly payments in the amount of \$38 (US\$46,540) which increase by 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.

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 six months ended June 30, 2021, and 2020

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

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 total purchase price was US\$20 million as follows: 1) US\$0.8 million at signing of the agreement (paid), 2) US\$2.7 million on or before September 12, 2017 (paid), and 3) US\$16.5 million on or before June 13, 2018 (US\$11 million paid).

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 (note 9).

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 \$0.345 per common share. The Company recorded a gain of \$2,125 which represents the difference between the fair value of common shares issued at \$2,920 and the \$5,045 contingent consideration settled with Nyrstar.

c) Costs capitalized as mineral interest and development assets

For the period ended June 30, 2021, and the year ended December 31, 2020, the Company capitalized the following acquisition and developments costs:

	Tahuehueto
Balance as at December 31, 2020	\$ 16,585
Costs incurred:	
Freight and related costs	4
Depreciation capitalized	500
Assaying, data, and maps	1
Camp cost, equipment, and field supplies	474
Fuel and consumables	18
Supplies, lubricants and other	26
Project general and office expenses	237
Permitting, environmental and community costs	7
Salaries and wages	208
Share-based compensation	78
Travel and accommodation	14
Interest capitalized, net	886
Total additions for the year	2,453
Foreign currency movement	(453)
Balance, June 30, 2021	\$ 18,585

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 six months ended June 30, 2021, and 2020

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets (continued)

	Tahuehueto
Balance as at December 31, 2019	\$ 12,335
Costs incurred:	
Treatment charges and penalties	101
Freight and related costs	24
Depreciation capitalized	1,081
Amortization right of use of assets\	19
Assaying, data, and maps	3
Camp cost, equipment, and field supplies	655
Development costs	355
Fuel and consumables	90
Supplies, lubricants and other	23
Project general and office expenses	295
Permitting, environmental and community costs	170
Salaries and wages	204
Travel and accommodation	9
Royalties	13
Interest capitalized, net	2,837
Pre - commercial sales	(165)
Total additions for the year	5,714
Change of provision for site reclamation and closure	(88)
Foreign currency movement	(1,376)
Balance, December 31, 2020	\$ 16,585

Included in mineral interest and development assets is \$886 (December 31, 2020 - \$2,837) of capitalized borrowing costs based on a capitalization rate of 100%.

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 six months ended June 30, 2021, and 2020

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Right of use assets (Note 11)	Total
Cost						
Balance, December 31, 2019	\$ 3,300	\$ 2,228	\$ 11,087	\$ 3,535	\$ 3,004	\$ 23,154
Additions	-	72	160	1	271	504
Transfers	-	2182	(2,182)	-	-	-
Dispositions	-	-	(39)	-	(1,669)	(1,708)
Balance, December 31, 2020	\$ 3,300	\$ 4,482	\$ 9,026	\$ 3,536	\$ 1,606	\$ 21,950
Additions	-	8	1,205	2,328	-	3,541
Transfers	-	-	-	-	-	-
Dispositions	-	-	-	-	(41)	(41)
Balance June 30, 2021	\$ 3,300	\$ 4,490	\$ 10,231	\$ 5,864	\$ 1,565	\$ 25,450
Accumulated amortization						
Balance, December 31, 2019	\$ -	\$ 253	\$ 1,477	\$ -	\$ 662	\$ 2,392
Amortization for the period	-	113	1,202	-	323	1,638
Transfers	-	104	(104)	-	-	-
Dispositions	-	-	(24)	-	(440)	(464)
Balance, December 31, 2020	\$ -	\$ 470	\$ 2,551	\$ -	\$ 545	\$ 3,566
Amortization for the period	-	91	589	-	92	772
Balance June 30, 2021	\$ -	\$ 561	\$ 3,140	\$ -	\$ 637	\$ 4,338
Foreign currency movement						
Balance, December 31, 2020	(118)	47	(1,180)	(131)	61	(1,321)
Balance June 30, 2021	(202)	(69)	(1,366)	(212)	36	(1,813)
Net book value						
Balance, December 31, 2020	\$ 3,182	\$ 4,059	\$ 5,295	\$ 3,405	\$ 1,122	\$ 17,063
Balance June 30, 2021	\$ 3,098	\$ 3,860	\$ 5,725	\$ 5,652	\$ 964	\$ 19,299

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 six months ended June 30, 2021, and 2020

9. DUE TO NYRSTAR MINING LTD.

As at June 30, 2021 and December 31, 2020, the Company recorded the following amounts due to Nyrstar Mining Ltd:

	Consideration payable due to acquisition		Contingent consideration (Note 7(b))		Total
Balance, December 31, 2019	\$	8,042	\$	3,863	\$ 11,905
Accrued interest		1,061		-	1,061
Change in fair value of contingent consideration		-		1,307	1,307
Foreign exchange adjustment		(212)		(76)	(288)
Balance, December 31, 2020	\$	8,891	\$	5,094	\$ 13,985
Accrued interest		373		-	373
VPP settlement		-		(5,045)	(5,045)
VPP incurred		-		1,596	1,596
Foreign exchange adjustment		(239)		(42)	(281)
Balance, June 30, 2021	\$	9,025	\$	1,603	\$ 10,628

	Consideration payable due to acquisition		Contingent consideration (Note 7(b))		Total
Current portion	\$	9,025	\$	1,603	\$ 10,628
Long term portion		-		-	-
Balance, June 30, 2021	\$	9,025	\$	1,603	\$ 10,628

	Consideration payable due to acquisition		Contingent consideration (Note 7(b))		Total
Current portion	\$	8,891	\$	5,094	\$ 13,985
Long term portion		-		-	-
Balance, December 31, 2020	\$	8,891	\$	5,094	\$ 13,985

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

On June 12, 2018, the Company renegotiated the terms for the remaining US\$8.5 million balance of the Campo Morado Agreement and entered into a loan agreement with Nyrstar ("Campo Morado Loan Agreement"). On November 19, 2018, the Company reached an agreement with Nyrstar to amend the terms of the Campo Morado Loan Agreement to mainly reduce the monthly principal repayment from US\$1.0 million to US\$0.5 million, which also effectively extends the repayment period of the balance owing. The main terms of the amended Campo Morado Loan Agreement are as follows:

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9. DUE TO NYRSTAR MINING LTD. (continued)

- a) Altaley agreed to pay on or before November 23, 2018, an amount of US\$500,000 as principal repayment plus any accrued interest. (Paid)
- b) Altaley will make monthly principal repayments of US\$500,000 on the 13th day of each month starting on December 13, 2018, and up until October 2019, plus any accrued interest
- c) The interest rate did not change and was kept at a fixed rate of 10% per annum and 12% for any amounts overdue
- d) Along with the monthly principal repayments mentioned above, Altaley will also pay:
 - 70% of any monthly free cash flow generated by Altaley; plus, any monthly excess cash balance above US\$500,000; plus
 - 50% of the monthly free cash flow generated by Altaley on the Tahuehueto project once Altaley declares commercial production.

Altaley agreed to repay in full the balance of the Campo Morado Loan Agreement no later than October 31, 2019.

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

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

The Nyrstar Letter Agreement further provides,

- Nyrstar's conditional approval and consent to allow Altaley to avoid a cause for default by granting Altaley a waiver, forgoing defaults under the Nyrstar Loan Agreement, and deferring interests and principal payments until June 30, 2021.
- This waiver eliminates the Nyrstar Loan Agreements restriction on Altaley for disposition of assets, if necessary, to generate cash to allow Altaley to repay its loan obligations to Nyrstar.
- Nyrstar agrees to restructure Altaley's entire loan debt obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm either of Altaley's projects financial viability if,
 - a. the Tahuehueto project is ramped up or,
 - b. the Campo Morado project successfully operates and shows monthly repayment of due obligations to Nyrstar and Trafigura on at least 6 consecutive months in amounts not less than an aggregate of \$300 per month, on a pro rata basis based on outstanding amounts due under the Campo Morado Loan Agreement with Nyrstar and the Loan Agreement Campo with Trafigura.
 - c. If Altaley successfully raises funding in a sufficient amount to fully fund the final construction and ramp up of the Tahuehueto project, which funding amount and requirements for effective ramp up to be independently verified by a mutually acceptable independent engineering consultant.

If Altaley repays the total debt due to Nyrstar under the Nyrstar Loan Agreement, Nyrstar shall no longer be a beneficiary of the Trust.

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9. DUE TO NYRSTAR MINING LTD. (continued)

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 \$0.345 per common share. The Company recorded a gain of \$2,125 which represents the difference between the fair value of common shares issued at \$2,920 and the \$5,045 contingent consideration settled with Nyrstar.

Effective June 17, 2021, the Company and Nyrstar agreed to amend the Campo Morado Loan Agreement with the following terms: 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 payable upon the execution and funding of the Accendo loan. The remaining outstanding balance of the loan will be paid in twenty-six equal monthly installments and the interest rate on the loan is 10% per annum.

Along with the monthly principal repayments mentioned above, Altaley will also pay at the end of each quarter once the grace period has ends, 70% of any excess cash above US\$7 million generated by Altaley on the Campo Morado mining project.

The above loan amendments were effective subject to Altaley closing on the US\$12 million Accendo loan which was subsequently executed on July 1, 2021, with fist funding received on July 19, 2021.

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 \$9.2 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 year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default 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 \$2.8 million (MXN\$46 million) primarily to further its Tahuehueto project. The continuity of the outstanding LOC balance is as follows:

		Amount
Balance, December 31, 2019	\$	3,892
Accrued interest		436
Foreign exchange adjustment		(201)
Balance, December 31, 2020	\$	4,127
Accrued interest		249
Foreign exchange adjustment		(14)
Balance, June 30, 2021	\$	4,362

		June 30, 2021	December 31, 2020
Current portion	\$	4,362	\$ 4,127
Long term portion		-	-
Balance	\$	4,362	\$ 4,127

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10. SHORT AND LONG-TERM DEBT (continued)

a) Line of Credit (continued)

Effective July 1, 2021, the Company and Escorfin agreed to amend the LOC agreement. The outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. The main terms on the amended agreement are: 10% interest rate per annum, with a 36-month term of repayment and a 12-month grace period on both principal and interest. As consideration for the restructure of the line of credit, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants, with each bonus warrant exercisable within a period of two years at a price of \$0.475.

b) Loan Facility Campo

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.

Under the terms of the Loan Agreement Campo, the Company is subject to certain covenants, including to maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is not in compliance with the covenants as at June 30, 2021 and December 31, 2020, therefore the outstanding balance is presented within current liabilities. The continuity of this loan is as follows:

		Amount
Balance, December 31, 2019	\$	4,565
Accrued interest		621
Foreign exchange adjustment		(173)
Balance, December 31, 2020	\$	5,013
Accrued interest		130
Foreign exchange adjustment		(128)
Balance, June 30, 2021	\$	5,015

		June 30, 2021	December 31, 2020
Current portion	\$	5,015	\$ 5,013
Long term portion		-	-
Balance	\$	5,015	\$ 5,013

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10. SHORT AND LONG-TERM DEBT (continued)

c) Loan Facility Real

On December 7, 2017, the Company entered into a 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 is available in three tranches, the first tranche equivalent to US\$7.5 million was received upon signing of the agreement. The second tranche equal to US\$5 million was received on November 6, 2018. The third tranche for US\$2.5 million was available in nine months after the signing of the agreement but shall not pass nine months after the signing of the agreement subject to securing additional funding of US\$2.5 million in the form of equity and/or a loan and at least US\$2 million of these funds are invested on capital expenditures. The loan bears interest at an effective annual rate equivalent to LIBOR (1 year) plus 6%, it has a three-year term with a twelve-month grace period followed by twenty-four repayments. In connection to the loan agreement the Company’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.

Under the terms of the Loan Agreement Real, the Company is subject to certain covenants, including the Company must maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is not in compliance with the covenants as at June 30, 2021 and December 31, 2020, therefore the outstanding balance is presented within current liabilities. The continuity of this loan is as follows:

		Amount
Balance, December 31, 2019	\$	16,497
Accrued interest		1,118
Foreign exchange adjustment		769
Balance, December 31, 2020	\$	18,384
Accrued interest		573
Foreign exchange adjustment		(328)
Balance, June 30, 2021	\$	18,629

		June 30, 2021	December 31, 2020
Current portion	\$	18,629	\$ 18,384
Long term portion		-	-
Balance	\$	18,629	\$ 18,384

d) Trafigura Waiver Agreement

On March 26, 2020, the Company entered into a letter agreement (the “Waiver Agreement”) with Trafigura which defines the terms under which Trafigura will provide Altaley a waiver to certain terms of the loan agreements entered into between the companies as described below.

Under the terms of the Waiver Agreement, Altaley acknowledges that it is in default of its loan obligations under the following two loan agreements (the “Loan Agreements”) entered between Trafigura and Altaley:

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10. SHORT AND LONG-TERM DEBT (continued)

d) Trafigura Waiver Agreement (continued)

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

Material terms of the Waiver Agreement are as follows:

- 1) Trafigura has provided their approval and consent to allow Altaley to avoid a cause for default by granting Altaley a waiver, forgoing defaults under the Loan Agreements, and deferring interests and principal payments until June 30, 2021.
- 2) This waiver also eliminates the Loan Agreements restriction on Altaley for disposition of assets, if necessary, to generate cash to allow Altaley to repay its Loan Agreements obligations to Trafigura.
- 3) Trafigura agrees to restructure the entire Loan Agreements obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm the projects financial viability, if
 - a. The Tahuehueto mining project is ramped up or,
 - b. Altaley successfully raises funding in sufficient amounts to fully fund the final construction and ramp up of the Tahuehueto mining project, which funding amount and requirements for effective ramp up, to be independently verified by a mutually acceptable independent engineering consultant.
 - c. And subject to the fulfillment of the milestones outlined in section 7 below.
- 4) Altaley agrees to undertake to conduct a process to market assets for potential sale (the "Transaction") in amounts to repay its Loan Agreements to Trafigura.
- 5) Altaley will transfer all 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 Altaley repay the total debt due to Trafigura under the Loan Agreements, the Trust will be terminated, and all assets held within the Trust will return to Altaley.
- 6) Altaley undertakes to make every effort to,
 - a. Raise funding to repay the full amount of the Loan Agreements and at the same time to,
 - b. Progress the Transaction and should Altaley not obtain sufficient funding to repay the Loan Agreements debt before June 30, 2021, Altaley intends to perform the sale of one or more of its project assets, to generate sufficient funds to repay the Loan Agreements.
- 7) Milestones - Altaley will take all reasonable commercial efforts to advance the Transaction, adhering to the time schedule outlined below and will provide Trafigura evidence that this process is advancing to the following schedule.
 - a. Before December 31, 2020, Altaley shall have received at least three (3) letters of intent from potential buyers regarding the Transaction.
 - b. Before March 31, 2021, Altaley shall have received at least three (3) binding offers from potential buyers regarding the Transaction.

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10. SHORT AND LONG-TERM DEBT (continued)

d) Trafigura Waiver Agreement (continued)

- c. It is recognized that a breach of the Waiver Agreement shall not have occurred should Altaley fail to receive the letters of intent and binding offers as contemplated in the above sections as a result of market conditions which fail to generate bona fide interest in the purchase of the assets so long as Altaley has in good faith made all commercially reasonable efforts to advance the Transaction and can provide evidence of such efforts.
 - d. No later than June 30, 2021, the corresponding sales and purchase agreement shall be executed between Altaley and the relevant purchaser if Altaley has not either, repaid its loan debt obligations or satisfied the conditions outlined within section 3 above.
- 8) In partial consideration of the waiver granted by Trafigura, Altaley issued to Trafigura 12,000,000 share purchase warrants exercisable into one common share per share purchase warrant at an exercise price of \$0.175 per share over a term of 36 months. If any of the Campo Morado mine or Tahuehueto mining project are sold and Altaley repays its total debt under the Loan Agreements within the timeline proposed the share purchase warrants will expire and thereby be canceled. The fair value of these warrants is \$2,492.

On November 12, 2020, the Company executed the Trust with Trafigura as mandated under the terms of the Waiver Agreement. Then, in December 2020, the Trust agreement was amended to include Nyrstar and Escorfin as beneficiaries to the Trust. Later on, July 1, 2021, Accendo was also added as beneficiary.

Subsequently, on February 23, 2021, the Company, has executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the "Accendo Syndicate") to provide up to US\$25 million of financing (collectively the "Financing") to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. Also, Altaley, the Accendo Syndicate and Trafigura have executed a memorandum of understanding ("MOU") that provides a non-binding framework with terms to be used by the parties to negotiate the potential entry into the definitive agreements of the proposed transactions including, the potential restructuring of Altaley's debt obligations to Trafigura and Nyrstar.

Effective June 17, 2021, the Company and Trafigura agreed to amend the Loan Agreement Campo and Loan Agreement Real with the main following terms:

- Loan Agreement Campo – The Company will capitalize the interest owing up the end of May 2021 and will continue to capitalize the interest until May 2022, subsequently the Company will pay the interest until the end of the agreement in September 2023. The balance owing of the loan will be repaid in twenty-six equal monthly installments starting in August 2021 with no change to the interest rate.
- Loan Agreement Real – The Company will capitalize the interest owing up the end of May 2021 and will start paying interest in June 2021. The balance owing of the loan will be repaid in thirty-two equal monthly installments starting in February 2022 with no change to the interest rate.

The above loan amendments were effective subject to Altaley closing on the US\$12 million Accendo loan which was subsequently executed on July 1, 2021, with first funding received on July 19, 2021.

e) Accendo Loan

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

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10. SHORT AND LONG-TERM DEBT (continued)

e) Accendo Loan (continued)

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 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 does not close. The bonus warrants were fair valued using the Black-Scholes option pricing model and their value is \$1,628 which was recorded in other assets. The assumption 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 at June 30, 2021 is \$1,083 (December 31, 2020 is \$1,354).

Accendo has advanced the Company US\$500,000 as of December 31, 2020, and the continuity of this loan is as follows:

		Amount
Balance, December 31, 2019	\$	-
Loan		655
Accrued interest		46
Interest Paid		(25)
Foreign exchange adjustment		(19)
Balance, December 31, 2020	\$	657
Accrued interest		43
Interest paid		(63)
Foreign exchange adjustment		(17)
Balance, June 30, 2021	\$	620

		June 30, 2021	December 31, 2020
Current portion	\$	84	\$ 126
Long term portion		536	531
Balance	\$	620	\$ 657

On July 1, 2021, the Company and Accendo executed the MTLF with first funding received on July 19, 2021, in the amount of US\$3.2 million.

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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 silver credit delivery will step down to 20% of the payable silver from produced lead and zinc concentrates. All streaming obligations will fully terminate after 10 years. Empress, to secure the Stream Agreement advanced a total of US\$5 million with a first initial payment of US\$2 million on April 29, 2021, and the remaining US\$3 million advance payment on July 22, 2021, upon closing of the Accendo Banco MTLF and restructuring of existing loans with Trafigura and Nyrstar.

12. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Altaley’s leases are mainly real estate leases for office space.

The Company leases office space for its corporate offices located in Vancouver, BC, Canada and Mexico City. As at June 30, 2021, the Company recorded \$662 (December 31, 2020 \$1,621), of lease liability. The incremental borrowing annual rate for lease liability initially recognized as of January 1, 2019, was 8% to 15%.

The continuity of lease liabilities for the three months ended June 30, 2021, and year ended December 31, 2020 is as follows:

		Amount
Balance lease liabilities, December 31, 2019	\$	1,927
New leases		303
Cancelation of leases		(160)
Lease payments		(359)
Interest expense		102
Interest paid		(102)
Foreign exchange adjustment		(90)
Balance lease liabilities, December 31, 2020	\$	1,621
Lease payments		(184)
Cancelation of leases		(739)
Interest expense		37
Interest paid		(37)
Foreign exchange adjustment		(36)
Balance, June 30, 2021	\$	662

		June 30, 2021		December 31, 2020
Current portion	\$	334	\$	1,355
Long term portion		328		266
Balance	\$	662	\$	1,621

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

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

	Amount
2021	\$ 170
2022	348
2023	116
2024	59
Thereafter	39
Total minimum lease payments	732
Present value of minimum lease payments	(70)
Lease obligations, June 30, 2021	\$ 662

	Machinery & equipment	Offices	Vehicles	Right of use assets (Note 8)
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Cost

Balance, December 31, 2019	\$ 2,315	\$ 536	\$ 153	\$ 3,004
Additions	-	271	-	271
Dispositions	(1,384)	(285)	-	(1,669)
Balance, December 31, 2020	931	522	153	1,606
Additions	-	-	-	-
Dispositions	-	(41)	-	(41)
Balance, June 2021	\$ 931	\$ 481	\$ 153	\$ 1,565

Accumulated amortization

Balance, December 31, 2019	\$ 474	\$ 142	\$ 46	\$ 662
Additions	176	106	41	323
Dispositions	(334)	(106)	-	(440)
Balance, December 31, 2020	\$ 316	\$ 142	\$ 87	\$ 545
Additions	56	28	8	92
Balance, June 30, 2021	\$ 372	\$ 170	\$ 95	\$ 637

Foreign currency movement

Balance, December 31, 2020	86	(17)	(8)	61
Balance, June 30, 2021	44	(6)	(2)	36

Net book value

Balance, December 31, 2020	\$ 701	\$ 363	\$ 58	\$ 1,122
Balance, June 30, 2021	\$ 603	\$ 305	\$ 56	\$ 964

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 matures in 2025.

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13. SHARE CAPITAL

Common share transactions:

Period ended June 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 for aggregate gross proceeds of \$10,080. Each Unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one additional Common Share of the Company at a price of \$0.30 per Common Share within twenty-four months from March 29, 2021 (the "Closing Date"). All securities issued under the private placement are subject to a hold period expiring four months and one day after the Closing Date.

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

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

- ii. During the period ended June 30, 2021, the Company issued 2,973,335 common shares for gross proceeds of \$398 in connection with stock options exercised. The fair value of the options exercised was \$398 and was transferred from the equity reserves and recorded against share capital.
- iii. During the period ended June 30, 2021, the Company issued 2,052,500 common shares for gross proceeds of \$478 in connection with share purchase warrants exercised. There was no fair value allocated these share purchase warrants.

Period ended June 30, 2020

- i. On February 4, 2020, the Company closed the first tranche of a non-brokered private placement offering, whereby gross proceeds of \$1,946 were raised by the issuance of 19,458,442 units (each, a "Unit") at a price of \$0.10 per Unit. Each Unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four months from closing. The fair value of the warrants is \$10.

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

- ii. On May 27, 2020, the Company closed the second and final tranche of a non-brokered private placement offering, whereby gross proceeds of \$197 were raised by the issuance of 1,965,990 units at a price of \$0.10 per unit. Each unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four months from closing.

Escorfin, a related party, acquired 1,412,400 units.

In connection with the above private placement, the Company issued 361,239 units as finders' fees. Each unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four months from closing. The finders' warrants were recorded at a fair value of \$6.

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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 stocks 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, 2019	9,567,166	0.39
Granted	350,000	0.19
Exercised	(75,000)	0.13
Cancelled	(1,150,000)	0.41
Outstanding, December 31, 2020	8,692,166	0.39
Granted	8,225,000	0.34
Exercised	(2,973,335)	0.13
Cancelled	(2,965,498)	0.23
Outstanding, June 30, 2021	10,978,333	0.40

As at June 30, 2021, and December 31, 2020, 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 11, 2022	695,000	\$ 0.71	1.37	695,000
November 11, 2022	1,308,333	0.30	1.37	1,308,333
April 16, 2023	400,000	0.30	1.79	400,000
August 6, 2025	100,000	0.16	4.10	66,667
January 29, 2025	200,000	0.20	3.59	66,667
February 8, 2025	250,000	0.20	3.61	83,333
February 2, 2023	300,000	0.30	1.59	100,000
February 25, 2026	5,350,000	0.30	4.66	1,783,333
March 16, 2023	300,000	0.30	1.71	300,000
May 19, 2026	2,000,000	0.45	4.89	666,667
May 11, 2026	75,000	0.46	4.87	25,000
Outstanding, June 30, 2021	10,978,333			5,495,000

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14. EQUITY RESERVES (continued)

Expiry date	Outstanding		Exercisable	
	Number of options	Exercise price	Remaining contractual life (years)	Number of options
March 22, 2021	4,862,166	\$ 0.13	0.22	4,862,166
November 11, 2022	3,030,000	0.71	1.86	3,030,000
April 16, 2023	400,000	0.77	2.29	400,000
April 23, 2023	50,000	0.72	2.31	50,000
August 6, 2025	100,000	0.20	4.60	33,000
September 16, 2025	250,000	0.16	4.71	82,500
Outstanding, December 31, 2020	8,692,166			8,457,666

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 six months period ended June 30, 2021 an amount of \$4 and \$944 (three and six months period ended June 30, 2020 – \$nil and \$nil) was expensed respectively as share-based compensation. The portion of share-based compensation recorded is based on the vesting schedule of the options.

During the period ended June 30, 2021, the Company re-priced 1,778,333 stock options originally granted as to; 1,328,333 exercisable at \$0.71 until November 10, 2022, 400,000 exercisable at \$0.72 until April 16, 2023, and 50,000 exercisable at \$0.71 until April 23, 2023. These stock options have been repriced to \$0.30 per share and expiry dates remain unchanged. The grant and repricing of the above options are subject to the acceptance of the TSX Venture Exchange and in the case of repricing options held by insiders subject to disinterested shareholder approval. The fair value of the stock options granted during the period ended June 30, 2021, and 2020, were estimated at \$2,162 and \$nil respectively using the Black-Scholes option valuation model with the following weighted average assumptions:

	2021	2020
Risk-free interest rate	0.66%	0.36%
Expected forfeiture rate	Nil	Nil
Stock price volatility	118%	108%
Expected life (in years)	4.79	4.65

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

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14. EQUITY RESERVES (continued)

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

	Warrants outstanding		Exercise price
Outstanding, December 31, 2019	4,562,401	\$	1.25
Issued	44,890,909		0.16
Expired	(4,562,401)		1.25
Outstanding, December 31, 2020	44,890,909		0.16
Issued	25,200,000		0.30
Exercised	(2,052,500)		0.23
Outstanding, June 30, 2021	68,038,409	\$	0.21

Outstanding			
Expiry date	Granted	Exercise price	Remaining contractual life (years)
February 4, 2022	8,029,221	\$	0.25
May 27, 2022	1,163,615		0.9
July 9, 2022	6,645,573		1.0
June 30, 2024	25,200,000		3.0
October 16, 2023	12,000,000		2.3
June 30, 2024	15,000,000		3.0
	68,038,409	\$	0.21
			2.4

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2021 [▼]	2020	2021	2020
Accounts payable and accrued liabilities included in mineral interest and development asset	\$ (511)	\$ 638	\$ (627)	\$ 918
Interest of long-term debt capitalized as mineral interest and development asset	471	444	886	921
Depreciation capitalized as mineral interest and development assets	188	143	436	403
Right of use of assets amortization capitalized	59	74	64	162
Fair value of stock options exercised	21	-	398	-

	Three months ended June 30,		Six months ended June 30,	
	2021 [▼]	2020	2021	2020
Interest paid (note 9 and 10)	\$ 38	\$ -	\$ 99	\$ -
Income taxes paid	-	-	-	-

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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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Short-term benefits	\$ 217	\$ 232	\$ 357	\$ 142
Share-based compensation	179	-	401	-
	\$ 396	\$ 232	\$ 758	\$ 142

b) Related party balances:

As at June 30, 2021, directors and officers or their related companies were owed \$150 (December 31, 2020 – \$615) 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 specialize in real estate development, energy innovations, and tourism investment in Mexico.

The following summarizes the transactions and balances owing to Escorfin as at June 30, 2021.

	June 30, 2021	December 31, 2020
Debt current portion	\$ 4,362	\$ 4,127
Debt long term portion	-	-
Balance	\$ 4,362	\$ 4,127

During the three and six months ended June 30, 2021, the Company incurred interest in the amount of \$144 and \$249 respectively of which \$nil was paid for both periods.

During the three and six months ended June 30, 2020, the Company incurred interest in the amount of \$103 and \$216 respectively of which \$nil was paid for both periods.

Escorfin acquired the following Units in the private placement:

March 30, 2021, private placement 500,000 Units, on February 4, 2020, 5,853,796 Units and on May 27, 2020 1,412,400 Units.

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:

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17. FINANCIAL INSTRUMENTS (continued)

- 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, Empress royalty stream 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. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant 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:

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17. FINANCIAL INSTRUMENTS (continued)

c) Market risk (continued)

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	\$ 6,896,963	\$ 117,047,337
Financial liabilities denominated in foreign currencies	(21,482,154)	(398,051,725)
Net exposure	\$ (14,585,191)	\$ (281,004,388)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$622.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$2,126.

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 June 30, 2021 and December 31, 2020, the Company's long-term debt 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 loss by approximately \$232. 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 June 30, 2021, and the year ended December 31, 2020, a 1% change in zinc and lead prices would result in an increase/decrease of approximately \$269 and \$71 respectively in revenues.

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18. CAPITAL RISK MANAGEMENT

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

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

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

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian or Mexican chartered bank account. Cash consists of cash on hand with banks.

The Company expects its current capital resources will be sufficient to carry its current operations. Nevertheless, any additional development and exploration is subject to acquiring new financing through loans, issue new shares through equity offerings or sell assets.

There has been no change to the Company's approach to capital management during the period ended as of June 30, 2021, and the year ended December 31, 2020.

The Company is not subject to externally imposed capital requirements.

19. 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	\$	6,893	\$	18,127	\$ 25,020
Non-current assets					
Mineral interest and development assets		-		18,585	18,585
Property, plant, and equipment		114		19,185	19,299
Other assets and long term accounts receivable		1,083		5,220	6,303
Total assets, June 30, 2021	\$	8,090	\$	61,117	\$ 69,207
Current liabilities	\$	13,890	\$	49,600	\$ 63,490
Non-current liabilities		60		6,560	6,620
Total liabilities, June 30, 2021	\$	13,950	\$	56,160	\$ 70,110

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19. SEGMENTED INFORMATION (continued)

	Canada		Mexico		Total
Current assets	\$	296	\$	12,570	\$ 12,866
Non-current assets					
Mineral interest and development assets		-		16,585	16,585
Property, plant, and equipment		-		17,063	17,063
Other assets and long term accounts receivable		1,354		5,056	6,410
Total assets, December 31, 2020	\$	1,650	\$	51,274	\$ 52,924
Current liabilities	\$	15,047	\$	58,153	\$ 73,200
Non-current liabilities		87		6,348	6,435
Total liabilities, December 31, 2020	\$	15,134	\$	64,501	\$ 79,635

During the period ended June 30, 2021, and 2020, the Company sold its commercial and pre-commercial production to one customer accounting for 100% of revenues and pre-commercial sales. As at June 30, 2020 trade receivables of \$3,402 (December 31, 2020 – \$241) were receivable entirely from this one customer. Revenues and pre-commercial sales if any, all were earned within Mexico.

Operating segments are as follows:

June 30, 2021	Campo Morado		Real de la Bufo		Other		Altaley Mining		Total
	Mexico	Mexico	Mexico	Mexico	Canada	Canada			
Revenue, net	\$	32,215	\$	-	\$	-	\$	-	\$ 32,215
Production costs and royalties		(17,390)		-		-		(118)	(17,508)
Accretion of provision for site reclamation and closure		(217)		-		-		-	(217)
Depletion and amortization		(245)		-		-		-	(245)
Mine operating earnings		14,363		-		-		(118)	14,245
General expenses		(1,033)		542		-		(2,445)	(2,936)
Other income (expenses)		(147)		(6)		(129)		344	62
Net income (loss) for the period	\$	13,183	\$	536	\$	(129)	\$	(2,219)	\$ 11,371

June 30, 2020	Campo Morado		Real de la Bufo		Other		Altaley Mining		Total
	Mexico	Mexico	Mexico	Mexico	Canada	Canada			
Revenue, net	\$	6,835	\$	-	\$	-	\$	-	\$ 6,835
Production costs and royalties		(7,138)		-		-		-	(7,138)
Accretion of provision for site reclamation and closure		(183)		-		-		-	(183)
Depletion and amortization		(207)		-		-		-	(207)
Mine operating earnings		(693)		-		-		-	(693)
General expenses		(1,849)		(431)		-		(686)	(2,966)
Other income (expenses)		(491)		3,371		(4,029)		(1,513)	(2,662)
Net income (loss) for the period	\$	(3,033)	\$	2,940	\$	(4,029)	\$	(2,199)	\$ (6,321)

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20. SUBSEQUENT EVENTS

- a) On July 1, 2021, the Company and Accendo executed the MTLF with first funding received on July 19, 2021, in the amount of US\$3.2 million and second funding on August 23, 2021, in the amount of US\$2.5 million.
- b) On July 1, 2021, the Company and Escorfin agreed to restructure the LOC agreement. The outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. The main terms on the amended agreement are: 10% interest rate per annum, with a 36-month term of repayment and a 12-month grace period on both principal and interest. As consideration for the restructure of the line of credit, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants, with each bonus warrant exercisable within a period of two years at a price of C\$0.475.
- c) On June 17, 2021, the Company and Trafigura agreed to amend the Loan Agreement Campo and Loan Agreement Real which became effective July 1, 2021, as they were subject to Altaley closing on the US\$12 million Accendo MTLF loan. The main terms of the amendments are:
 - Loan Agreement Campo – The Company will capitalize the interest owing up the end of May 2021 and will continue to capitalize the interest until May 2022, subsequently the Company will pay the interest until the end of the agreement in September 2023. The balance owing of the loan will be repaid in twenty-six equal monthly installments starting August 2021 with no change to the interest rate.
 - Loan Agreement Real – The Company will capitalize the interest owing up the end of May 2021 and will start paying interest in June 2021. The balance owing of the loan will be repaid in thirty-two equal monthly installments starting February 2022 with no change to the interest rate.
- d) On June 17, 2021, the Company and Nyrstar agreed to amend the Campo Morado Loan Agreement which became effective July 1, 2021, as it was subject to Altaley closing on the US\$12 million Accendo MTLF loan. The main terms of the amendment are: the Company will repay the interest owing, a portion of the principal and the incurred VPP for a total of US\$3.2 million payable upon the execution and funding of the Accendo loan. The remaining outstanding balance will be paid in twenty-six equal monthly installments and the interest rate on the loan is 10% per annum.

On July 21, 2021, the Company repaid the US\$3.2 million mentioned above.

- e) On July 22, 2021, the Company received the last advance payment in the amount of US\$3 million from Empress as part of the Empress Royalty Agreement.
- f) On August 9, 2021, the Company granted 100,000 incentive stock options to a recently hire employee with the terms of the Company's stock option plan. These stock options are exercisable into one common share of the Company at an exercise price of \$0.53 per common share and for a period of five years. 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.