



**ALTALEY MINING CORPORATION**  
(Formerly Telson Mining Corporation)

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2021 and 2020**

**(Expressed in thousands of Canadian dollars)**

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# Independent Auditor's Report

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To the Shareholders of  
Altaley Mining Corporation

## Opinion

We have audited the consolidated financial statements of Altaley Mining Corporation (the "Corporation") which comprise the consolidated statements of financial position as at December 31, 2021, and December 31, 2020 and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2021, and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Corporation has a working capital deficit of \$3,114 thousand and has an accumulated deficit of \$64,487 thousand as at December 31, 2021. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

## Information other than the consolidated financial statements and auditor's report thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with

the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Riecken.

*Grant Thornton LLP*

Vancouver, Canada  
April 29, 2022

Chartered Professional Accountants  
Licensed Public Accountants

**Altaley Mining Corporation** (Formerly Telson Mining Corporation)**Consolidated Statements of Financial Position**

(Expressed in thousands of Canadian dollars)

|  | Notes   | As at December 31, 2021 | As at December 31, 2020 |
|--|---------|-------------------------|-------------------------|
| <b>Assets</b>                                    |         |                         |                         |
| Cash   |         | \$ 3,049                | \$ 257                  |
| Marketable securities                            | 4       | 3,909                   | 4,271                   |
| Accounts receivable                              | 5       | 8,451                   | 599                     |
| Prepaid expenses and deposits                    |         | 3,512                   | 1,759                   |
| Inventories                                      | 6       | 9,707                   | 5,980                   |
| <b>Total current assets</b>                      |         | <b>28,628</b>           | <b>12,866</b>           |
| Mineral interest and development assets          | 7       | 40,699                  | 16,585                  |
| Property, plant and equipment                    | 8       | 37,655                  | 17,063                  |
| Taxes receivable long-term                       | 5       | 15                      | 5,056                   |
| Other assets                                     | 10      | 1,808                   | 1,354                   |
| <b>Total non-current assets</b>                  |         | <b>80,177</b>           | <b>40,058</b>           |
| <b>Total assets</b>                              |         | <b>\$ 108,805</b>       | <b>\$ 52,924</b>        |
| <b>Liabilities</b>                               |         |                         |                         |
| Accounts payable and accrued liabilities         |         | \$ 16,492               | \$ 30,210               |
| Due to Breakwater Resources Ltd                  | 7(b), 9 | 3,132                   | 13,985                  |
| Short-term debt                                  | 10      | 10,620                  | 27,650                  |
| Empress royalty stream                           | 11      | 227                     | –                       |
| Current portion of lease liabilities             | 12      | 1,271                   | 1,355                   |
| <b>Total current liabilities</b>                 |         | <b>31,742</b>           | <b>73,200</b>           |
| Long-term debt                                   | 10      | 23,926                  | 531                     |
| Long-term due to Breakwater Resources Ltd        | 7(b), 9 | 2,356                   | –                       |
| Long-term Empress royalty stream                 | 11      | 6,761                   | –                       |
| Lease liabilities                                | 12      | 8,750                   | 266                     |
| Provision for site reclamation and closure       | 13      | 4,599                   | 5,638                   |
| <b>Total non-current liabilities</b>             |         | <b>46,392</b>           | <b>6,435</b>            |
| <b>Total liabilities</b>                         |         | <b>\$ 78,134</b>        | <b>\$ 79,635</b>        |
| <b>Equity (deficiency)</b>                       |         |                         |                         |
| Share capital                                    | 14      | \$ 84,757               | \$ 65,317               |
| Equity reserves                                  | 15      | 11,803                  | 10,591                  |
| Accumulated other comprehensive loss             |         | (1,402)                 | (1,867)                 |
| Deficit  |         | (64,487)                | (100,752)               |
| <b>Total equity (deficiency)</b>                 |         | <b>30,671</b>           | <b>(26,711)</b>         |
| <b>Total liabilities and equity (deficiency)</b> |         | <b>\$ 108,805</b>       | <b>\$ 52,924</b>        |

Going concern (Note 1)

Subsequent events (Note 26)

Approved by the Board of Directors on April 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 consolidated financial statements

**Altaley Mining Corporation** (Formerly Telson Mining Corporation)  
**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
(Expressed in thousands of Canadian dollars, except shares and per share amounts)

|  | Notes     | Years ended December 31, |                    |
|--|-----------|--------------------------|--------------------|
|  |           | 2021                     | 2020               |
| <b>Revenues</b>  |           |                          |                    |
| Gross sales  |           | \$ 98,452                | \$ 44,443          |
| Treatment and selling costs  |           | (28,768)                 | (21,286)           |
| Net revenue  |           | 69,684                   | 23,157             |
| <b>Cost of Sales</b>   |           |                          |                    |
| Production cost  |           | \$ 32,628                | \$ 22,023          |
| Royalties  |           | 2,262                    | 827                |
| Depreciation and amortization  | 8         | 538                      | 445                |
| Total cost of sales  |           | 35,428                   | 23,295             |
| <b>Mine operating profit (loss)</b>  |           | <b>34,256</b>            | <b>(138)</b>       |
| <b>General Expenses:</b>   |           |                          |                    |
| Consulting fees, wages and benefits  | 20        | \$ 2,402                 | \$ 1,974           |
| Legal and professional fees  |           | 756                      | 418                |
| Office, rent and administration  |           | 2,219                    | 1,092              |
| Amortization of right-of-use assets  | 8, 12     | 123                      | 112                |
| Regulatory, transfer agent and shareholder information                       |           | 131                      | 28                 |
| Travel, promotion and investor relations                                     |           | 808                      | 216                |
| Share-based compensation   | 7, 15, 20 | 2,018                    | 42                 |
| (Reversal of) impairment of assets   | 7         | (16,340)                 | 876                |
| Total general expenses   |           | (7,883)                  | 4,758              |
| <b>Other (income) expense:</b>   |           |                          |                    |
| Interest income  |           | \$ (422)                 | \$ (39)            |
| Change in fair value of financial instruments                                | 4, 9      | 2,371                    | 697                |
| Finance costs  | 16        | 3,215                    | 2,440              |
| Other income and expenses  | 17        | 3,429                    | 3,967              |
| Foreign exchange gain  |           | (2,719)                  | (337)              |
| Total other (income) expense   |           | 5,874                    | 6,728              |
| <b>Net income (loss) for the year</b>  |           | <b>\$ 36,265</b>         | <b>\$ (11,624)</b> |
| <b>Other comprehensive income (loss)</b>                                     |           |                          |                    |
| Items that will be reclassified subsequently to profit or (loss)             |           |                          |                    |
| Foreign currency translation adjustment                                      |           | 465                      | 97                 |
| <b>Total items that may be reclassified subsequently to profit or (loss)</b> |           | <b>465</b>               | <b>97</b>          |
| <b>Total net comprehensive income (loss) for the year</b>                    |           | <b>\$ 36,730</b>         | <b>\$ (11,527)</b> |
| Weighted average number of common shares outstanding                         |           |                          |                    |
| Basic  |           | 236,217,565              | 161,810,840        |
| Diluted  |           | 273,772,025              | 161,810,840        |
| <b>Earnings (loss) per share ("EPS")</b>                                     |           |                          |                    |
| Basic EPS  |           | \$ 0.15                  | \$ (0.07)          |
| Diluted EPS  |           | \$ 0.13                  | \$ (0.07)          |

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

**Altaley Mining Corporation (Formerly Telson Mining Corporation)**

**Consolidated Statements of Changes in Equity (Deficiency)**

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

| Notes  | Number of<br>common<br>shares | Share<br>capital | Share<br>subscriptions<br>received in<br>advance | Equity<br>reserves | Accumulated<br>other<br>comprehensive<br>income (loss) | Deficit             | Total              |
|--|-------------------------------|------------------|--|--------------------|--|---------------------|--------------------|
| <b>Balance as at December 31, 2019</b>   | <b>139,579,152</b>            | <b>\$ 59,743</b> | <b>\$ 795</b>                                    | <b>\$ 6,423</b>    | <b>\$ (1,964)</b>                                      | <b>\$ (89,128)</b>  | <b>\$ (24,131)</b> |
| Subscriptions received in advance  | –                             | –                | 1,443  | –                  | –  | –                   | 1,443              |
| Shares issued on private placement, net of<br>issuance cost                                | 14<br>35,420,577              | 3,468            | (2,238)  | –                  | –  | –                   | 1,230              |
| Shares issued on debt settlement   | 14<br>7,330,651               | 2,053            | –  | –                  | –  | –                   | 2,053              |
| Finder's fees  | 14<br>361,239                 | 33               | –  | 6                  | –  | –                   | 39                 |
| Stock options exercised  | 14, 15<br>75,000              | 10               | –  | –                  | –  | –                   | 10                 |
| Fair value of stock options allocated to<br>share capital issued on exercise               | 14<br>–                       | 10               | –  | (10)               | –  | –                   | –                  |
| Fair value of warrants - debt restructuring  | 10(c)<br>–                    | –                | –  | 2,492              | –  | –                   | 2,492              |
| Fair value of warrants issued in private<br>placements                                     | 14<br>–                       | –                | –  | 10                 | –  | –                   | 10                 |
| Fair value of warrants issued in financing   | 14<br>–                       | –                | –  | 1,628              | –  | –                   | 1,628              |
| Share-based compensation   | 15<br>–                       | –                | –  | 42                 | –  | –                   | 42                 |
| Loss and comprehensive loss for the year   | –                             | –                | –  | –                  | 97   | (11,624)            | (11,527)           |
| <b>Balance as at December 31, 2020</b>   | <b>182,766,619</b>            | <b>\$ 65,317</b> | <b>\$ –</b>                                      | <b>\$ 10,591</b>   | <b>\$ (1,867)</b>                                      | <b>\$ (100,752)</b> | <b>\$ (26,711)</b> |
| Shares issued on private placement, net of<br>issuance cost                                | 14<br>50,400,000              | 9,573            | –  | –                  | –  | –                   | 9,573              |
| Shares Issued upon settlement of obligations   | 9, 14<br>14,600,000           | 5,548            | –  | –                  | –  | –                   | 5,548              |
| Bonus shares and warrants issued on<br>modification of debt                                | 10(a), 14<br>500,000          | 385              | –  | 812                | –  | –                   | 1,197              |
| Stock options exercised  | 14, 15<br>3,006,668           | 408              | –  | –                  | –  | –                   | 408                |
| Fair value of stock options allocated to<br>share capital issued on exercise               | 15<br>–                       | 390              | –  | (390)              | –  | –                   | –                  |
| Fair value of stock options allocated to<br>share capital issued on expiry or cancellation | 15<br>–                       | 1,442            | –  | (1,442)            | –  | –                   | –                  |
| Warrants exercised   | 14<br>6,287,250               | 1,486            | –  | –                  | –  | –                   | 1,486              |
| Fair value of warrants allocated to<br>share capital issued on exercise                    | 15<br>–                       | 208              | –  | (208)              | –  | –                   | –                  |
| Share-based compensation   | 15<br>–                       | –                | –  | 2,440              | –  | –                   | 2,440              |
| Income and comprehensive income for the year   | –                             | –                | –  | –                  | 465  | 36,265              | 36,730             |
| <b>Balance as at December 31, 2021</b>   | <b>257,560,537</b>            | <b>\$ 84,757</b> | <b>\$ –</b>                                      | <b>\$ 11,803</b>   | <b>\$ (1,402)</b>                                      | <b>\$ (64,487)</b>  | <b>\$ 30,671</b>   |

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

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

## Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

|   | Notes     | Years ended December 31, |                |
|---|-----------|--------------------------|----------------|
|   |           | 2021                     | 2020           |
| <b>Cash provided by (used in):</b>                                |           |                          |                |
| <b>Operating activities:</b>                                      |           |                          |                |
| Income (loss) for the year  |           | \$ 36,265                | \$ (11,624)    |
| Items not involving cash:   |           |                          |                |
| Accretion for site reclamation and closure                        | 13        | 464                      | 374            |
| Depreciation and amortization                                     | 8         | 538                      | 445            |
| Amortization of right-of-use assets                               | 12        | 123                      | 112            |
| Share-based compensation  | 15        | 2,292                    | 42             |
| Impairment of financial assets                                    | 5, 17     | 3,968                    | –              |
| (Reversal of) impairment of non-financial assets                  | 7, 8      | (16,462)                 | 876            |
| Amortization of deferred financing costs                          | 10        | (436)                    | –              |
| Accretion on Empress Royalty stream                               | 11        | 683                      | –              |
| Revaluation of financial instruments                              | 4, 9      | 2,371                    | 697            |
| Accrued interest on debt  | 9, 10     | 1,108                    | 2,066          |
| (Gain) loss on extinguishment of loans                            | 9, 10     | (1,551)                  | –              |
| Income tax expense  | 21        | –                        | –              |
| Fair value of warrants issued in private placements               |           | –                        | 10             |
| Fair value of shares and warrants issued in financing             |           | 812                      | 2,492          |
| Changes in non-cash working capital:                              |           |                          |                |
| Restricted funds  |           | (3,663)                  | –              |
| Accounts receivable and other assets                              |           | (3,081)                  | 867            |
| Prepaid expenses and deposits                                     |           | (1,790)                  | (1,344)        |
| Inventories   |           | (3,891)                  | 843            |
| Accounts payable and accrued liabilities                          |           | (13,679)                 | 692            |
| <b>Cash provided by (used in) operating activities</b>            |           | <b>4,071</b>             | <b>(3,452)</b> |
| <b>Investing activities:</b>                                      |           |                          |                |
| Plant and equipment, net  | 8         | (12,591)                 | 315            |
| Mineral interest and development assets additions                 | 7         | (5,397)                  | 300            |
| Redeemed marketable securities                                    | 4         | –                        | 657            |
| <b>Cash (used in) provided by investing activities</b>            |           | <b>(17,988)</b>          | <b>1,272</b>   |
| <b>Financing activities:</b>                                      |           |                          |                |
| Shares issued on financing, net of issuance costs                 | 14        | 9,958                    | 2,673          |
| Interest paid   | 9, 10, 12 | (3,629)                  | (127)          |
| Debt acquired   | 10(c)     | 7,146                    | 655            |
| Proceeds in connection to warrants and/or stock options exercised |           | 1,894                    | 10             |
| Proceeds from Empress Royalty stream, net of transaction costs    | 11        | 6,227                    | –              |
| Repayment of right of use liabilities                             | 12        | (528)                    | (359)          |
| Repayment of debt   | 9, 10     | (4,086)                  | –              |
| <b>Cash provided by financing activities</b>                      |           | <b>16,982</b>            | <b>2,852</b>   |
| <b>Effect of foreign exchange rate changes on cash</b>            |           | <b>(273)</b>             | <b>(560)</b>   |
| <b>Increase in cash</b>   |           | <b>2,792</b>             | <b>112</b>     |
| <b>Cash, beginning of the year</b>                                |           | <b>257</b>               | <b>145</b>     |
| <b>Cash, end of the year</b>                                      |           | <b>\$ 3,049</b>          | <b>\$ 257</b>  |

Supplemental cash flow information (Note 18)

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



# Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Consolidated Financial Statements

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

For the years ended December 31, 2021, and 2020

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## 1. NATURE OF OPERATIONS AND GOING CONCERN

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

### Going concern

The Company’s principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project (Note 7). Effective May 16, 2018, the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the “Accendo Syndicate”) to provide up to US\$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo’s banking license and started its liquidation. The Company has a US\$5.8 million balance to be drawn down from its executed Medium Term Loan Facility (“MTLF”) (Note 10 (c)) which is now impaired and was part of the total US\$25 million Accendo Syndicate financing. Notwithstanding, subsequent to completing the necessary financing to place Tahuehueto into commercial production, there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. As a result of these risks, there are material uncertainties which may cast significant doubt as to the Company’s ability to continue as a going concern. There is no assurance that the Company’s funding initiatives will be successful, and these consolidated financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported consolidated statements of financial position classifications that would be necessary if the going concern assumption were inappropriate. No adjustments have been made should the going concern assumption not be appropriate and such adjustments could be material. The Company has a working capital deficit as at December 31, 2021 of \$3,114 (December 31, 2020 - \$60,334) and an accumulated deficit of \$64,487 (December 31, 2020 - \$100,752). These 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 year ended December 31, 2021, there was no significant financial impact on the Company.

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance 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”).

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Consolidated Financial Statements

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

For the years ended December 31, 2021, and 2020

## 2. BASIS OF PRESENTATION (continued)

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 29, 2022.

### (b) Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The following is a list of subsidiaries and their geographical locations:

| Subsidiary                                    | Place of Incorporation | Beneficial Interest |
|---|------------------------|---------------------|
| Samarkand de Mexico, S.A. de C.V.             | Mexico                 | 100%                |
| Sierra Soleada S.A. de C.V.                   | Mexico                 | 100%                |
| Real de la Bufa S.A. de C.V.                  | Mexico                 | 100%                |
| Minas de Campo Morado, S.A. de C.V.           | Mexico                 | 100%                |
| Prestadora de Servicios Arcelia, S.A. de C.V. | Mexico                 | 100%                |
| Minas de Arcelia, S.A. de C.V.                | Mexico                 | 100%                |
| Grupo Minero Mexicano Nyrstar, S.A. de C.V.   | Mexico                 | 100%                |
| Grupo Minero HD, S.A. de C.V.                 | Mexico                 | 100%                |

Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. All intercompany balances and transactions have been eliminated upon consolidation.

### (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.

The functional currency of Altaley Mining Corporation, the parent entity, is the Canadian dollar. The US dollar was determined to be the functional currency of the primary economic environment in which the Mexican subsidiaries Real de la Bufa, S.A. de C.V. and Minas de Campo Morado, S.A. de C.V. operate, as most of the development, operational and sales activities are denominated or are influenced by the US dollar.

### (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 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 consolidated financial statements and the financial results are as follows:

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## 2. BASIS OF PRESENTATION (continued)

### Judgements

#### Going concern

These financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

#### Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

Judgement was required in determining that the US dollar is the appropriate functional currency of certain subsidiaries of the Company. This was determined by assessing the currency which influences sales prices for concentrate sales, labour and input costs. If the judgement was altered and a different functional currency was selected for certain subsidiaries of the Company, this could result in material differences in the amounts recorded in the consolidated statements of loss and comprehensive loss pertaining to foreign exchange gains or losses.

#### Economic recoverability, impairment and probability of future economic benefits of mineral property interests

Management has determined that mining interests, evaluation, development and related costs incurred which have been capitalized as mineral interests and development costs, are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

The Company assesses its mining interest and development assets, property, plant and equipment assets annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential, mineral reserves, and operating performance.

#### Commencement of commercial production

Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major mine components has been reached, operating results, which includes the grade and volume of material mined, are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments.

#### Accounting for streaming arrangements

To qualify for the own use exemption, a contract to buy or sell a non-financial item needs to be entered into and continue to be held to receive or deliver that non-financial item in accordance with the company's expected purchase, sale or usage requirements. The Company made significant judgments in relation to the ownership of the production facilities, amount and timing of future expected production, options or lack thereof to settle in cash, unit of account, and potential changes to settlement terms. The Company considers its precious metal streaming arrangements as a commodity arrangement in which the fair value of the stream will be recorded as

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## 2. BASIS OF PRESENTATION (continued)

deferred revenue until the payable silver is delivered in line with the terms of the agreement. Management has determined that the streaming arrangement qualifies for the own use exemption in all material aspects.

### Estimates

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

#### Mineral reserves and mineral resource estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining interests. The Company estimates its mineral reserves and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data.

The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mining reserve or mineral resource estimates may impact the carrying value of mineral interests and development assets, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

#### Operating levels intended by management

Prior to reaching operating levels intended by management, costs incurred are capitalized as part of the costs of the related mineral property and proceeds from sales are offset against capitalized costs. Depletion of capitalized costs for a mineral property begins when operating levels intended by management have been reached. Management considers several factors in determining when a mineral property has reached the operating levels intended by management. The results of operations of the Company during the year ended December 31, 2021 and 2020, presented in these consolidated financial statements, have been impacted by management's determination that its Tahuehueto property, classified as mineral interest and development assets on the statement of financial position, did not reach the operating levels intended by management. The Company is unable to determine with certainty the extent of project changes and operational modifications that would be required to more fully realize on the potential value of the existing resources and reserves.

#### Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure costs is based on management's best estimate of the present value of the future cash outflows required to settle the liability. In determining the liability, management makes estimates about the future costs, inflation, foreign exchange rates, risks associated with the cash flows, and the applicable risk-free interest rates for discounting future cash flows. Changes in any of these estimates could result in a change in the provision recognized by the Company. Also, the ultimate costs of environmental disturbance are uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

#### Inventory valuation

Consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the valuation of ore stockpiles and concentrates based on an appropriate allocation of direct mining costs, direct labour and material costs, mine site overhead, and depletion and amortization.

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## 2. BASIS OF PRESENTATION (continued)

### Accounts receivable

The recoverability of accounts receivable which is included in the consolidated statements of financial position are initially recorded at fair value and subsequently at amortized cost using the effective interest rate method. Accounts receivable are presented net of allowances and discounts that the Company expects to realize from the sale of concentrate.

### Provisions

Provisions recognized in the consolidated financial statements involve estimates on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

### Depreciation and amortization rate for property, plant, and equipment

Depreciation and amortization expenses are allocated based on estimated economic lives. Should the economic life, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statement of loss and comprehensive loss on a prospective basis.

### Stock based compensation

The Company grants stock options to certain of its employees, directors, and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model.

The compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. This number is reviewed annually, with any change in estimate recognized immediately in the compensation expense with a corresponding adjustment to equity reserves.

### Deferred tax assets and liabilities

Management judgment and estimates are required in assessing whether deferred tax assets and deferred tax liabilities are recognized in the consolidated statements of financial position. Judgements are made as to whether future taxable profits will be available in order to recognize deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, and other capital management transactions. These judgments and estimates are subject to risk and uncertainty and changes in circumstances may alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the consolidated statements of financial position and the benefit of other tax losses and temporary differences not yet recognized. The tax rate expected to be in effect when temporary differences reverse is 30% for Mexico.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the entity at exchange rates in effect at the transaction dates.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate on the reporting date. Non-monetary assets and liabilities measured at fair value are translated using the exchange rates at the date when fair value was

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

determined. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using exchange rates that were in effect at the transaction dates.

Foreign currency gains and losses arising on period-end revaluations are recognized in the consolidated statements of loss and comprehensive loss, except for differences arising on translation of a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income (loss).

For the purpose of the consolidated financial statements, assets and liabilities of entities that have functional currencies other than the Canadian dollar are translated to Canadian dollars at the reporting date using the exchange rate on that date. Revenue and expenses are translated at monthly average exchange rates that approximate those in effect at the transaction dates. Differences arising from these foreign currency translations are recognized in other comprehensive loss and presented within equity as currency translation reserve. When a foreign operation is disposed, the relevant exchange differences accumulated in the foreign currency translation reserve are transferred to the consolidated statements of loss and comprehensive loss as part of the profit or loss on disposal.

### (b) Cash

Cash consists of cash on hand and demand deposits.

### (c) Inventory

Inventories of consumable parts and supplies are valued at weighted average cost, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Costs allocated to consumable parts and supplies are based on last purchases and include all costs of purchase, conversion, and other costs in bringing these inventories to their existing location and condition. Costs allocated to ore stockpiles and concentrates are based on average costs, which include an appropriate share of direct mining costs, direct labour and material costs, and mine site overhead. If the carrying value exceeds the net realizable amount, a write down is recognized. The write down may be reversed in a subsequent period if the circumstances which caused it no longer to exist.

### (d) Mineral interest and development assets

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as mineral interest and development assets and, in addition, any pre-commercial production is also capitalized, all of which is classified as a component of mineral interest and development asset.

During the development of a mine, prior to the commencement of production, costs incurred to remove overburden and other mine waste materials in order to access the resource body ("stripping costs") are classified as a mineral interest and development asset and are capitalized to the related property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to resources that will be producing in future periods and would not otherwise have been accessible, which are capitalized to the cost of mineral property interests and depleted on a unit-of-production method over the resources that directly benefit from the stripping activity.

The Company capitalizes of all direct costs related to the development of the Tahuehueto project to mineral interest and development 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 the development the project, thereby making it a development stage asset under IAS 16.

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Notes to the Consolidated Financial Statements

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company capitalized all direct costs associated to the rehabilitation and testing of the mine at Campo Morado, net of any revenue earned during commissioning. Effective May 15, 2018, the Company completed the commissioning and testing of Campo Morado declaring commercial production. Furthermore, the Company used several criteria to assess whether the mine was in the condition necessary for it to be capable of operating in a manner intended by management. These criteria include, but are not limited to:

- Completion of all major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management.
- The passage of a reasonable period of rehabilitation and testing of the mine plant which demonstrates the ability to mine and mill consistently and without significant interruption at a pre-determined average rate of designed capacity.
- The mining project's ability to produce mineral concentrate within specifications, this includes the ability to produce concentrate that could be commercialized.
- The mine project has all the necessary permits to be a producing mine; and
- Mineral recoveries are at or near expected production levels.

### (e) Property, plant, and equipment

#### i. Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day to day servicing of property and equipment are expensed in profit or loss as incurred.

The following table outlines the methods used to depreciate property, plant, and equipment:

- 1) Mine plant and infrastructure – Life of mine (estimated as 11 years)
- 2) Machinery and equipment – Straight line 4 years to 10 years

#### ii. Construction in progress

Construction in progress includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Construction in progress includes advances on long-lead items. Construction in progress is not depreciated. Once the asset is complete and available for use, the costs of construction are transferred to the appropriate category of property, plant and equipment, and depreciation commences.

### (f) Borrowing costs

Interest and other financing costs directly related to the acquisition, development and construction, and production of qualifying assets are capitalized in mineral interest and development assets until they are complete and available for use, at which time they are transferred to property, plant and equipment. Borrowing costs incurred after the asset has been placed into service as well as all other borrowing costs are charged to the consolidated statement of loss when incurred.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Deferred revenue

Precious metals streaming contracts are subject to variable consideration and contain 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 these contracts. Significant judgement was required in determining if the stream transactions were to be accounted for as deferred revenue. Management has determined that these streaming transactions are not derivatives since obligations will be satisfied through the delivery of non-financial items (i.e. silver equivalent credits) rather than cash or financial assets. It is management's intention to settle the obligations under the stream transactions through its own production and if this is not possible, the streaming transactions would be reconsidered for classification as a financial instrument given the potential for a cash settlement. The resulting impact would be a change to the accounting treatment of such deferred revenue, resulting in the revaluation of the fair value of the agreement through the income statement on a recurring basis.

### (h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

### (i) Provision for site reclamation and closure

An obligation to incur rehabilitation and site restoration costs arises when environmental disturbance is caused by the exploration, development, or on-going production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to the statement of loss and comprehensive loss over the life of the operation through amortization and the unwinding of the discount in the provision. At the end of each period, the provision is remeasured to reflect changes in the estimated future cash flows underlying any initial estimates. Costs for restoration of subsequent site damage, which is created on an on-going basis during exploration and production are provided for at their estimated net present values and charged against earnings as extraction progresses.

### (j) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that



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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

### (k) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments are initially recorded at fair value, adjusted for directly attributable transaction costs if not at fair value through profit or loss. The Company determines each financial instrument's classification upon initial recognition. Measurement in subsequent periods depends on the financial instrument's classification.

#### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

#### *Measurement*

##### *Financial assets at FVTOCI*

Financial assets at FVTOCI are elected investments in equity instruments and are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

##### *Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost.

##### *Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

##### *Impairment of financial assets at amortized cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### *Derecognition*

#### *Financial assets*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss. However, gains and losses on equity instruments held that are classified as FVTOCI remain within OCI and are not reclassified to profit or loss.

#### *Financial liabilities*

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

### **(l) Income taxes**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **(m) Share capital**

Common shares are classified as equity (deficiency). Transactions costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity (deficiency), net of any tax effect.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Share-based compensation

The Company's stock option plan allows employees, directors, officers, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to capital stock and the fair value of the options is reclassified from equity reserves to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

If options or warrants issued as share-based compensation expire unexercised, then the historical fair value of the share-based compensation is transferred from equity reserves to deficit.

### (o) Warrants issued in equity financial transactions

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and was valued at its fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. If the warrants are exercised the related reserves are reclassified from reserves to share capital.

### (p) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period.

### (q) Revenue recognition

The Company applies the requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company recognizes revenue from contracts with customers for the sale of metal concentrates at the point in time when it transfers control of the concentrates over to the customers, which occurs upon physical delivery. Revenues are measured based on 1) the market metal prices expected at time of the settlement, and 2) the estimates of the mineral contents (assays) and weights; both are subject to adjustment until the final settlement date. At the end of each reporting period, the amounts receivables are marked-to-market using the most up-

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

to-date market prices for the settlement. These variations between the sales price recorded at the initial recognition date and the actual final sales price recorded at the settlement date are caused by changes in market prices, assay results and weights. The settlement receivable is recorded at fair value each period until final settlement occurs, with changes in fair value recorded as a component of revenue. Revenue is also recorded net of treatment, penalties, and refining charges of the counterparties under the terms of the relevant sales agreements.

Revenue and cost of sales from concentrate are recognized in mining interest and development assets when generated during commissioning of the plant or when generated from pre-commercial production; and to operations when generated from commercial production. Once recovery of concentrate has reduced the carrying value of the mineral interest and development asset to \$nil, recoveries are recorded on the statement of loss and comprehensive loss as recovery of expenses.

### (r) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether it has the right to obtain substantially all of the economic benefits from and to direct the use of the identified asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- i. fixed payments, including in-substance fixed payments;
- ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- iii. amounts expected to be payable under a residual value guarantee; and
- iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the Statement of Operations and Comprehensive Income (Loss) if the carrying amount of the right-of-use asset has been reduced to zero.

### *Short-term leases and leases of low-value assets*

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### (s) Application of new and revised accounting standards

#### i. Accounting standards adopted during the year

There were no new standards effective January 1, 2021 that impacted the Company's consolidated financial statements.

### (t) Accounting standards and interpretations issued but not yet adopted

The following standards and interpretations, which may be applicable to the Company, have been issued but are not yet effective as of December 31, 2021.

#### Amendment to IAS 16, Property, Plant and Equipment ("IAS 16")

On May 14, 2020, the IASB amended IAS 16 "Property, Plant and Equipment" to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The Company is currently evaluating the impact of the amendments to IAS 16 on its consolidated financial statements.

## 4. MARKETABLE SECURITIES

|   |           |              |
|---|-----------|--------------|
| Balance, December 31, 2019                    | \$        | 4,653        |
| Redemption of marketable securities           |           | (657)        |
| Change in fair value of marketable securities |           | 610          |
| Foreign currency movement                     |           | (335)        |
| <b>Balance, December 31, 2020</b>             | <b>\$</b> | <b>4,271</b> |
| Change in fair value of marketable securities |           | (223)        |
| Foreign currency movement                     |           | (139)        |
| <b>Balance, December 31, 2021</b>             | <b>\$</b> | <b>3,909</b> |

The Company holds senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at December 31, 2021 and are therefore classified as level 1 within the fair value

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## 4. MARKETABLE SECURITIES (continued)

hierarchy with an interest rate of 11% per annum, payable semi-annually. The investments are held in Mexico with a maturity date in August 2023.

## 5. ACCOUNTS RECEIVABLE

|  |           | December 31, 2021 |           | December 31, 2020 |
|--|-----------|-------------------|-----------|-------------------|
| Trade receivables                            | \$        | 1,629             | \$        | 241               |
| Value added taxes and other taxes receivable |           | 6,655             |           | 37                |
| Other receivables                            |           | 167               |           | 321               |
| <b>Total accounts receivable</b>             | <b>\$</b> | <b>8,451</b>      | <b>\$</b> | <b>599</b>        |

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 year ended December 31, 2021, the Company disclosed as a long-term receivable, value added taxes generated in Mexico based on the expected timing of realization. As at December 31, 2021 the Company has \$15 (December 31, 2020 – \$5,056) in valued added taxes receivable included in non-current assets.

## 6. INVENTORIES

|                          |           | December 31, 2021 |           | December 31, 2020 |
|--------------------------|-----------|-------------------|-----------|-------------------|
| Materials and supplies   | \$        | 6,146             | \$        | 4,593             |
| Concentrates             |           | 1,263             |           | 884               |
| Stock pile ore           |           | 2,298             |           | 503               |
| <b>Total inventories</b> | <b>\$</b> | <b>9,707</b>      | <b>\$</b> | <b>5,980</b>      |

During the year ended December 31, 2021, the Company recognized \$16,780 (December 31, 2020 – \$9,611) of inventory as an expense through cost of sales.

## 7. MINERAL INTEREST AND DEVELOPMENT ASSETS

### a) Tahuehueto mining project

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

Pursuant to the Real Agreement, the Company is obligated to make final payments in the amount of \$234 (December 31, 2020 – \$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 annual payments in the amount of (US\$46,540) which increase at a rate of 5% compounded annually.

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

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

- i. US\$0.8 million at signing of the agreement;
- ii. US\$2.7 million on or before September 12, 2017; and
- iii. US\$16.5 million on or before June 13, 2018 of which US\$4.3 million remains outstanding as at December 31, 2021 (December 31, 2020 – US\$5.5 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. 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.

During the year ended December 31, 2021, the Company recorded a reversal of previous impairment charges in the amount of \$16,340 (December 31, 2020 – \$nil), related to the value in use of the mineral interest and development assets at the Campo Morado mine. This impairment reversal represents a full reversal of prior impairments allocated to mineral interest and development assets, adjusted for depletion. The impairment reversal was primarily a result of increases in the Company's operational output, improved community relations, successful restructuring of long-term debt terms and increases in long-term commodity prices expected to be realized. Impairment indicators which ceased operations during the year ended December 31, 2019 began to improve during the year ended December 31, 2020 and operations have reached sustainable levels during the year ended December 31, 2021. After giving effect to the impairment reversal and changes to the provision for site reclamation and closure (Note 13) the carrying value of the mineral interest and development assets at the Campo Morado mine is \$16,462 as at December 31, 2021.

The significant estimates and assumptions used for the CGUs tested in the Company's impairment assessment for the year ended December 31, 2021 were as follows:

- estimated long-term zinc prices of US\$1.14/lb.;
- estimated long-term copper prices of US\$3.60/lb.;
- estimated long-term lead prices of US\$0.92/lb.;
- estimated long-term gold prices of US\$1,647/oz;
- estimated long-term silver prices of US\$21.63/oz;
- proven and probable mineral reserves and converted resources of 8.83 million metric tons; and
- discount rate of 11.75% estimated based on existing interest rates which funding has been provided

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## 7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

### c) Costs capitalized as mineral interest and development assets

For the years ended December 31, 2021, and December 31, 2020, the Company capitalized the following acquisition and developments costs:

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

|  |           | Tahuehueto    |           | Campo Morado |           | Total         |
|--|-----------|---------------|-----------|--------------|-----------|---------------|
| Balance as at December 31, 2019                      | \$        | 12,335        | \$        | -            | \$        | 12,335        |
| <b>Costs incurred:</b>                               |           |               |           |              |           |               |
| Treatment charges and penalties                      |           | 101           |           | -            |           | 101           |
| Freight and related costs                            |           | 24            |           | -            |           | 24            |
| Depreciation and amortization capitalized            |           | 1,100         |           | -            |           | 1,100         |
| Camp cost, equipment, and field supplies             |           | 658           |           | -            |           | 658           |
| Development costs                                    |           | 355           |           | -            |           | 355           |
| Supplies, lubricants and other                       |           | 113           |           | -            |           | 113           |
| Project general and office expenses                  |           | 130           |           | -            |           | 130           |
| Permitting, environmental and community costs        |           | 170           |           | -            |           | 170           |
| Salaries and wages                                   |           | 204           |           | -            |           | 204           |
| Travel and accommodation                             |           | 9             |           | -            |           | 9             |
| Royalties  |           | 13            |           | -            |           | 13            |
| Interest capitalized, net                            |           | 2,837         |           | -            |           | 2,837         |
| Total additions for the year                         | \$        | 5,714         | \$        | -            | \$        | 5,714         |
| Change of provision for site reclamation and closure |           | (88)          |           | -            |           | (88)          |
| Foreign currency movement                            |           | (1,376)       |           | -            |           | (1,376)       |
| <b>Balance, December 31, 2020</b>                    | <b>\$</b> | <b>16,585</b> | <b>\$</b> | <b>-</b>     | <b>\$</b> | <b>16,585</b> |

Included in mineral interest and development assets is \$2,652 (December 31, 2020 – \$2,837) of capitalized borrowing costs based on a capitalization rate of 100%. Borrowing costs capitalized to mineral interest and development assets include \$317 of non-cash accretion for the year ended December 31, 2021 (December 31, 2020 – \$nil).



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## 8. PROPERTY, PLANT AND EQUIPMENT

|                                  | Land            | Mine plant & infrastructure | Machinery & equipment | Construction in progress | Right of use assets<br>(Note 12) | Total            |
|----------------------------------|-----------------|-----------------------------|-----------------------|--------------------------|----------------------------------|------------------|
| <b>Cost</b>                      |                 |                             |                       |                          |                                  |                  |
| Balance, December 31, 2019       | \$ 3,300        | \$ 2,228                    | \$ 11,087             | \$ 3,535                 | \$ 3,004                         | \$ 23,154        |
| Additions                        | -               | 72                          | 160                   | 1                        | 271                              | 504              |
| Transfers                        | -               | 2,182                       | (2,182)               | -                        | -                                | -                |
| Dispositions                     | -               | -                           | (39)                  | -                        | (1,669)                          | (1,708)          |
| Foreign currency movement        | (118)           | (29)                        | (1,047)               | (131)                    | 63                               | (1,262)          |
| Balance, December 31, 2020       | \$ 3,182        | \$ 4,453                    | \$ 7,979              | \$ 3,405                 | \$ 1,669                         | \$ 20,688        |
| Additions                        | -               | 48                          | 1,924                 | 11,426                   | 9,554                            | 22,952           |
| Change in estimate               | -               | -                           | -                     | -                        | 9                                | 9                |
| Transfers                        | -               | 980                         | -                     | (980)                    | -                                | -                |
| Dispositions                     | -               | -                           | -                     | -                        | (249)                            | (249)            |
| Foreign currency movement        | (12)            | (23)                        | (3)                   | 108                      | (7)                              | 63               |
| <b>Balance December 31, 2021</b> | <b>\$ 3,170</b> | <b>\$ 5,458</b>             | <b>\$ 9,900</b>       | <b>\$ 13,959</b>         | <b>\$ 10,976</b>                 | <b>\$ 43,463</b> |
| <b>Accumulated amortization</b>  |                 |                             |                       |                          |                                  |                  |
| Balance, December 31, 2019       | \$ -            | \$ 253                      | \$ 1,477              | \$ -                     | \$ 662                           | \$ 2,392         |
| Amortization for the year        | -               | 113                         | 1,202                 | -                        | 323                              | 1,638            |
| Transfers                        | -               | 104                         | (104)                 | -                        | -                                | -                |
| Dispositions                     | -               | -                           | (24)                  | -                        | (440)                            | (464)            |
| Foreign currency movement        | -               | (76)                        | 133                   | -                        | 2                                | 59               |
| Balance, December 31, 2020       | \$ -            | \$ 394                      | \$ 2,684              | \$ -                     | \$ 547                           | \$ 3,625         |
| Amortization for the year        | -               | 320                         | 1,403                 | -                        | 517                              | 2,240            |
| Dispositions                     | -               | -                           | -                     | -                        | (93)                             | (93)             |
| Foreign currency movement        | -               | 2                           | 4                     | -                        | 30                               | 36               |
| <b>Balance December 31, 2021</b> | <b>\$ -</b>     | <b>\$ 716</b>               | <b>\$ 4,091</b>       | <b>\$ -</b>              | <b>\$ 1,001</b>                  | <b>\$ 5,808</b>  |
| <b>Net book value</b>            |                 |                             |                       |                          |                                  |                  |
| Balance, December 31, 2020       | \$ 3,182        | \$ 4,059                    | \$ 5,295              | \$ 3,405                 | \$ 1,122                         | \$ 17,063        |
| <b>Balance December 31, 2021</b> | <b>\$ 3,170</b> | <b>\$ 4,742</b>             | <b>\$ 5,809</b>       | <b>\$ 13,959</b>         | <b>\$ 9,975</b>                  | <b>\$ 37,655</b> |

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## 9. DUE TO BREAKWATER RESOURCES LTD.

As at December 31, 2021 and 2020, the Company recorded the following amounts due to Breakwater Resources Ltd:

|   | Consideration<br>payable due to<br>acquisition |           | Contingent<br>consideration<br>(Note 7(b)) |           | Total         |
|---|--|-----------|--|-----------|---------------|
| Balance, December 31, 2019                          | \$ 8,042                                       | \$        | 3,863                                      | \$        | 11,905        |
| Interest accrued                                    | 1,061  |           | -  |           | 1,061         |
| Change in fair value of contingent<br>consideration | -  |           | 1,307                                      |           | 1,307         |
| Foreign currency movement                           | (212)  |           | (76)                                       |           | (288)         |
| <b>Balance, December 31, 2020</b>                   | <b>\$ 8,891</b>                                | <b>\$</b> | <b>5,094</b>                               | <b>\$</b> | <b>13,985</b> |
| Interest accrued                                    | 706  |           | -  |           | 706           |
| Interest paid                                       | (2,556)  |           | -  |           | (2,556)       |
| Principal paid                                      | (1,452)  |           | -  |           | (1,452)       |
| Change in fair value of contingent<br>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)         |
| <b>Balance, December 31, 2021</b>                   | <b>\$ 5,488</b>                                | <b>\$</b> | <b>-</b>                                   | <b>\$</b> | <b>5,488</b>  |

|                                   | Consideration<br>payable due to<br>acquisition |           | Contingent<br>consideration<br>(Note 7(b)) |           | Total        |
|-----------------------------------|--|-----------|--|-----------|--------------|
| Current portion                   | \$ 3,132                                       | \$        | -  | \$        | 3,132        |
| Long term portion                 | 2,356  |           | -  |           | 2,356        |
| <b>Balance, December 31, 2021</b> | <b>\$ 5,488</b>                                | <b>\$</b> | <b>-</b>                                   | <b>\$</b> | <b>5,488</b> |

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

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;
- ii. US\$2.7 million on or before September 12, 2017; and
- iii. US\$16.5 million on or before June 13, 2018 of which US\$4.3 million remains outstanding as at December 31, 2021 (December 31, 2020 – US\$5.5 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").

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## 9. DUE TO BREAKWATER RESOURCES 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 \$0.38 per common share. The Company recorded a loss of \$2,148 which represents the change in the fair value of common shares issued at \$5,548 and the VPP cash settlement of \$1,629 contingent consideration settled with Nyrstar.

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

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

The above loan amendments resulted in a substantial modification of terms as outlined above. As a result of the amendment of terms, the Company recognized a gain on extinguishment in other income and expenses totaling \$25 impacting the valuation in relation to the Campo Morado Loan Agreement.

Effective September 30, 2021, Breakwater Resources Ltd. ("Breakwater") 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.

## 10. SHORT AND LONG-TERM DEBT

### a) Line of Credit

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

Effective July 1, 2021, the Company and Escorfin agreed to amend the LOC agreement resulting in a substantial modification whereby the outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. To accommodate the amendment, Escorfin has been accepted into the Trust Agreement defined in Note 10(b). The remaining term was extended 36 months from the date of amendment with a grace period equal to 12 months on principal and interest. The amended interest rate was decreased to 10% per annum from 15% per annum and as consideration for LOC modification, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants. Each bonus warrant is exercisable within a period of two years at a price of \$0.475. The shares issued were valued at the date of issuance, July 30, 2021, and the bonus warrants were fair valued using

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## 10. SHORT AND LONG-TERM DEBT (continued)

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 December 31, 2021 is \$996 (December 31, 2020 – \$nil).

As a result of the substantial modification of terms, the Company recognized a loss on extinguishment in other income and expenses totaling \$229 impacting the fair value of the LOC. The continuity of the outstanding LOC balance is as follows:

|   |           |              |
|---|-----------|--------------|
| Balance, December 31, 2019                | \$        | 3,892        |
| Interest accrued                          |           | 436          |
| Foreign currency movement                 |           | (201)        |
| <b>Balance, December 31, 2020</b>         | <b>\$</b> | <b>4,127</b> |
| Interest accrued prior to extinguishment  |           | 254          |
| Loss on extinguishment                    |           | 139          |
| Interest accrued following extinguishment |           | 229          |
| Foreign currency movement                 |           | (13)         |
| <b>Balance, December 31, 2021</b>         | <b>\$</b> | <b>4,736</b> |

|                   |           | December 31, 2021 |           | December 31, 2020 |
|-------------------|-----------|-------------------|-----------|-------------------|
| Current portion   | \$        | 1,357             | \$        | 4,127             |
| Long term portion |           | 3,379             |           | -                 |
| <b>Balance</b>    | <b>\$</b> | <b>4,736</b>      | <b>\$</b> | <b>4,127</b>      |

### b) Trafigura Loans

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

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

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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For the years ended December 31, 2021, and 2020

## 10. SHORT AND LONG-TERM DEBT (continued)

Under the terms of the Loan Agreement Campo and Loan Agreement Real (collectively the "Trafigura Loans"), the Company is subject to certain covenants. The Company was not in compliance with the Trafigura Loans and 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 the Company a waiver to certain terms of the loan agreements. Under the terms of Waiver Agreement, the Company 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 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 as mandated under the terms of the Waiver Agreement.

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

The continuity of the loans are as follows:

|                                   | Loan Agreement<br>Campo | Loan Agreement<br>Real | Total Trafigura<br>Loans |
|-----------------------------------|-------------------------|------------------------|--------------------------|
| Balance, December 31, 2019        | \$ 4,565                | \$ 16,497              | \$ 21,062                |
| Interest accrued                  | 621                     | -                      | 621                      |
| Interest paid                     | -                       | 1,118                  | 1,118                    |
| Foreign currency movement         | (173)                   | 769                    | 596                      |
| Balance, December 31, 2020        | \$ 5,013                | \$ 18,384              | \$ 23,397                |
| Interest accrued and capitalized  | 108                     | 478                    | 586                      |
| Interest accrued                  | 257                     | 1,007                  | 1,264                    |
| Interest paid                     | (124)                   | (587)                  | (711)                    |
| Principal paid                    | (970)                   | -                      | (970)                    |
| Gain on extinguishment            | (312)                   | (1,352)                | (1,664)                  |
| Foreign currency movement         | (35)                    | (226)                  | (261)                    |
| <b>Balance, December 31, 2021</b> | <b>\$ 3,937</b>         | <b>\$ 17,704</b>       | <b>\$ 21,641</b>         |

|                                   | Loan Agreement<br>Campo | Loan Agreement<br>Real | Total Trafigura<br>Loans |
|-----------------------------------|-------------------------|------------------------|--------------------------|
| Current portion                   | \$ 2,215                | \$ 5,306               | \$ 7,521                 |
| Long term portion                 | 1,722                   | 12,398                 | 14,120                   |
| <b>Balance, December 31, 2021</b> | <b>\$ 3,937</b>         | <b>\$ 17,704</b>       | <b>\$ 21,641</b>         |

|                                   | Loan Agreement<br>Campo | Loan Agreement<br>Real | Total Trafigura<br>Loans |
|-----------------------------------|-------------------------|------------------------|--------------------------|
| Current portion                   | \$ 5,013                | \$ 18,384              | \$ 23,397                |
| Long term portion                 | -                       | -                      | -                        |
| <b>Balance, December 31, 2020</b> | <b>\$ 5,013</b>         | <b>\$ 18,384</b>       | <b>\$ 23,397</b>         |

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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For the years ended December 31, 2021, and 2020

## 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 their value is \$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 December 31, 2021 is \$812 (December 31, 2020 – \$1,354).

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

The continuity of the MTLF is as follows:

|                                   |           |              |
|-----------------------------------|-----------|--------------|
| Balance, December 31, 2019        | \$        | -            |
| Disbursements                     |           | 655          |
| Interest accrued                  |           | 46           |
| Interest paid                     |           | (25)         |
| Foreign currency movement         |           | (19)         |
| Balance, December 31, 2020        | \$        | 657          |
| Disbursements                     |           | 7,146        |
| Interest accrued                  |           | 456          |
| Interest paid                     |           | (137)        |
| Principal paid                    |           | (35)         |
| Foreign currency movement         |           | 82           |
| <b>Balance, December 31, 2021</b> | <b>\$</b> | <b>8,169</b> |

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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## 10. SHORT AND LONG-TERM DEBT (continued)

|                   | December 31, 2021 |              | December 31, 2020 |            |
|-------------------|-------------------|--------------|-------------------|------------|
| Current portion   | \$                | 1,742        | \$                | 126        |
| Long term portion |                   | 6,427        |                   | 531        |
| <b>Balance</b>    | <b>\$</b>         | <b>8,169</b> | <b>\$</b>         | <b>657</b> |

## 11. EMPRESS ROYALTY STREAM

On April 14, 2021, the Company entered into a silver stream agreement (the "Stream Agreement") with Empress Royalty Corp. ("Empress") in which Altaley will deliver to Empress silver credits purchased from a bullion bank in an amount equivalent to 100% of the first 1,250,000 ounces of payable silver contained within produced lead and zinc concentrates from the Tahuehueto mining project; thereafter, the stream percentage silver credit delivery will step down to 20% of the payable silver from produced lead and zinc concentrates. All streaming obligations will fully terminate after 10 years. To accommodate the arrangement, Empress has been accepted into the Trust Agreement defined in Note 10(b). Empress, to secure the Stream Agreement advanced a total of US\$5 million with a first initial payment of US\$2 million received on April 29, 2021, and the remaining US\$3 million advance payment received on July 22, 2021. The streaming arrangement is subject to variable consideration and contain 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:

|  |           |              |
|--|-----------|--------------|
| Balance, December 31, 2020               | \$        | -            |
| Upfront deposit, net of transaction fees |           | 6,227        |
| Accretion on streaming arrangements      |           | 683          |
| Foreign currency movement                |           | 78           |
| <b>Balance, December 31, 2021</b>        | <b>\$</b> | <b>6,988</b> |

|                   | December 31, 2021 |              | December 31, 2020 |          |
|-------------------|-------------------|--------------|-------------------|----------|
| Current portion   | \$                | 227          | \$                | -        |
| Long term portion |                   | 6,761        |                   | -        |
| <b>Balance</b>    | <b>\$</b>         | <b>6,988</b> | <b>\$</b>         | <b>-</b> |

## 12. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Altaley's leases consist of machinery and equipment used to support operations at the Campo Morado and Tahuehueto mines. The Company additionally leases office space for its corporate offices located in Vancouver, BC, Canada, and site headquarters located in Mexico City and Durango, Mexico. As at December 31, 2021, the Company recorded \$10,021 (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%.

## Altaley Mining Corporation (Formerly Telson Mining Corporation)

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For the years ended December 31, 2021, and 2020

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

The continuity of lease liabilities for the years ended December 31, 2021, and December 31, 2020 is as follows:

|  |           |               |
|--|-----------|---------------|
| Balance lease liabilities, December 31, 2019 | \$        | 1,927         |
| Lease additions                              |           | 303           |
| Lease cancelations                           |           | (160)         |
| Lease payments                               |           | (359)         |
| Interest expense                             |           | 102           |
| Interest paid                                |           | (102)         |
| Foreign currency movement                    |           | (90)          |
| Balance lease liabilities, December 31, 2020 | \$        | 1,621         |
| Lease additions                              |           | 9,554         |
| Lease amendments                             |           | 9             |
| Lease cancelations                           |           | (733)         |
| Lease payments                               |           | (528)         |
| Interest expense                             |           | 226           |
| Interest paid                                |           | (226)         |
| Foreign currency movement                    |           | 98            |
| <b>Balance, December 31, 2021</b>            | <b>\$</b> | <b>10,021</b> |

|                   | December 31, 2021 | December 31, 2020 |
|-------------------|-------------------|-------------------|
| Current portion   | \$ 1,271          | \$ 1,355          |
| Long term portion | 8,750             | 266               |
| <b>Balance</b>    | <b>\$ 10,021</b>  | <b>\$ 1,621</b>   |

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

|   |           |               |
|---|-----------|---------------|
| 2022  | \$        | 2,288         |
| 2023  |           | 1,110         |
| 2024  |           | 1,547         |
| 2025  |           | 1,520         |
| Thereafter                                  |           | 10,131        |
| Total minimum lease payments                |           | 16,596        |
| Present value of minimum lease payments     |           | (6,575)       |
| <b>Lease obligations, December 31, 2021</b> | <b>\$</b> | <b>10,021</b> |

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



# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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For the years ended December 31, 2021, and 2020

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

|                                   | Machinery &<br>equipment | Offices       | Vehicles     | Right of use<br>assets<br>(Note 8) |
|-----------------------------------|--------------------------|---------------|--------------|------------------------------------|
| <b>Cost</b>                       |                          |               |              |                                    |
| Balance, December 31, 2019        | \$ 2,315                 | \$ 536        | \$ 153       | \$ 3,004                           |
| Additions                         | -                        | 271           | -            | 271                                |
| Dispositions                      | (1,384)                  | (285)         | -            | (1,669)                            |
| Foreign currency movement         | 67                       | -             | (4)          | 63                                 |
| 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)                                |
| <b>Balance, December 31, 2021</b> | <b>\$ 10,375</b>         | <b>\$ 524</b> | <b>\$ 77</b> | <b>\$ 10,976</b>                   |
| <b>Accumulated amortization</b>   |                          |               |              |                                    |
| Balance, December 31, 2019        | \$ 474                   | \$ 142        | \$ 46        | \$ 662                             |
| Additions                         | 176                      | 106           | 41           | 323                                |
| Dispositions                      | (334)                    | (106)         | -            | (440)                              |
| Foreign currency movement         | (19)                     | 17            | 4            | 2                                  |
| Balance, December 31, 2020        | \$ 297                   | \$ 159        | \$ 91        | \$ 547                             |
| Additions                         | 374                      | 110           | 33           | 517                                |
| Dispositions                      | (55)                     | -             | (38)         | (93)                               |
| Foreign currency movement         | 65                       | (17)          | (18)         | 30                                 |
| <b>Balance, December 31, 2021</b> | <b>\$ 681</b>            | <b>\$ 252</b> | <b>\$ 68</b> | <b>\$ 1,001</b>                    |
| <b>Net book value</b>             |                          |               |              |                                    |
| <b>Balance, December 31, 2020</b> | <b>\$ 701</b>            | <b>\$ 363</b> | <b>\$ 58</b> | <b>\$ 1,122</b>                    |
| <b>Balance, December 31, 2021</b> | <b>\$ 9,694</b>          | <b>\$ 272</b> | <b>\$ 9</b>  | <b>\$ 9,975</b>                    |

## 13. PROVISION FOR SITE RECLAMATION AND CLOSURE

The Company recognizes a provision for site reclamation and closure, which reflects the present value of the estimated amount of cash flows required to satisfy the site reclamation and closure costs. The components of this obligation are mainly the costs associated with the reclamation of the infrastructure and buildings, roads and work sites on the property. The estimate of future site reclamation and closure obligations is subject to change based on amendments to applicable laws, management's intentions, mine life and mining concessions renewals.

### a) Tahuehueto mining project

A total present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at \$1,952 (December 31, 2020 – \$360). A provision for site reclamation and closure has been recognized in respect of the Tahuehueto mining project. The key assumptions on which this estimate was based on are:

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## 13. PROVISION FOR SITE RECLAMATION AND CLOSURE (continued)

- Undiscounted cash flow for site reclamation of \$4,412 (MXP \$68.9M), 2020 - \$551 (MXP\$8.6M);
- Expected timing of future cash flows is based on estimated mine life of 11 years (2020 – 9 years) with reclamation occurring equally in years 12 and 13 (2020 – years 10 and 11);
- Annual inflation rate 4.99% (2020 – 4.19%); and
- Risk free interest rate 11.75% (2020 – 8.50%)

### b) Campo Morado mine

On acquisition of Campo Morado a provision for site reclamation and closure has been recognized in respect of the Campo Morado mining operations. The key assumptions on which this estimate was based on are:

- Undiscounted cash flow for site reclamation of \$10,638 (MXP \$166.1M), 2020 – \$9,049 (MXP \$141.6M);
- Expected timing of future cash flows is based on estimated mine life of 20 years (2020 – 11 years) with reclamation occurring in years 21 to 25 (2020 – years 12 to 17);
- Annual inflation rate 4.99% (2020 – 4.19%); and
- Risk free interest rate 11.75% (2020 – 8.50%).

The present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at \$2,647 (December 31, 2020 – \$5,278).

The following is a continuity of the obligation for site reclamation and closure:

|                                 |           | December 31, 2021 |           | December 31, 2020 |
|---------------------------------|-----------|-------------------|-----------|-------------------|
| Balance, beginning of the year  | \$        | 5,638             | \$        | 5,758             |
| Accretion expense               |           | 464               |           | 374               |
| Change in estimate              |           | (1,320)           |           | (114)             |
| Foreign currency movement       |           | (183)             |           | (380)             |
| <b>Balance, end of the year</b> | <b>\$</b> | <b>4,599</b>      | <b>\$</b> | <b>5,638</b>      |

## 14. SHARE CAPITAL

Common share transactions:

Year ended December 31, 2021

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

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

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

- 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 \$0.38 per common share.

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## 14. SHARE CAPITAL (continued)

- iii. On July 30, 2021, the Company issued 500,000 common shares to Escorfin, a related party, in part for its efforts in amending the terms of the LOC (Note 10(a)).
- iv. During the year ended December 31, 2021, the Company issued 3,006,668 common shares for gross proceeds of \$408 in connection with stock options exercised. The fair value of the options exercised was \$390 and was transferred from the equity reserves and recorded against share capital. An additional fair value of \$497 was reclassified to share capital from the equity reserves upon cancellation or expiry of stock options.
- v. During the year ended December, 2021, the Company issued 6,287,250 common shares for gross proceeds of \$1,486 in connection with share purchase warrants exercised. There was no fair value allocated to 5,287,250 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.

Year ended December 31, 2020

- i. On October 15, 2020, the Company closed a debt settlement with Accendo in the amount of \$660 in connection to a portion of Tahuehueto mining project's suppliers debt. Accordingly, the Company issued 7,330,651 shares valued at \$0.09 per share at the time the negotiation was done. Subsequently when the shares were issued the fair value of these shares were \$0.28 per share and as a result the Company recorded a loss of \$1,393. In connection with the financing with Accendo (note 10(c)), the Company, issued 15 million bonus warrants that were issued in lieu of a work fee but subject to cancelation if the loan facility does not close. As specified in Note 10, in partial consideration of the waiver granted by Trafigura, during the reporting year Telson issued to Trafigura 12,000,000 share purchase warrants exercisable into one common share at an exercise price of \$0.175 per share. The warrants were valued using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate 0.24%, expected dividend yield \$nil, stock price volatility 112% and expected life in years of 3, which resulted in a fair value of \$2,492.
- ii. 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 19,458,422 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 (24) months from closing. The fair value of the warrants is \$10.

Escorfin, a related party to the Company, acquired 5,853,796 units.

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 (24) months from closing.

Escorfin, a related party to the Company, 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

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## 14. SHARE CAPITAL (continued)

of the Company at \$0.25 within twenty-four (24) months from closing. The finders' warrants were recorded at a fair value of \$6.

All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date.

- iii. On July 10, 2020, the Company closed a non-brokered private placement offering, whereby gross proceeds of \$1,400 were raised by the issuance of 13,996,145 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 \$0.15 within twenty-four (24) months from closing. All securities issued under the private placement are subject to a hold period expiring four months and one day after the closing date. The share issuance cost associated with both private placements is \$64.
- iv. During the year ended December 31, 2020, the Company issued 75,000 common shares for gross proceeds of \$10 in connection with stock options exercised. The fair value of the options exercised was \$10 and was transferred from the equity reserves and recorded against share capital.

## 15. 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<br>of stock<br>options |           | Weighted<br>average<br>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                     | \$        | 0.36                                  |
| Granted                               | 9,325,000                     |           | 0.34                                  |
| Exercised                             | (3,006,668)                   |           | 0.14                                  |
| Cancelled                             | (3,464,065)                   |           | 0.44                                  |
| Expired                               | (988,100)                     |           | 0.13                                  |
| <b>Outstanding, December 31, 2021</b> | <b>10,558,333</b>             | <b>\$</b> | <b>0.34</b>                           |

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For the years ended December 31, 2021, and 2020

## 15. EQUITY RESERVES (continued)

As at December 31, 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                     | 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            |
| <b>Outstanding, December 31, 2021</b> | <b>10,558,333</b> |                |                                    | <b>7,466,666</b>  |

| 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            |
| <b>Outstanding, December 31, 2020</b> | <b>8,692,166</b>  |                |                                    | <b>8,457,666</b>  |

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 year ended December 31, 2021, an amount of \$2,292 (December 31, 2020 – \$42) was expensed as share-based compensation, which includes amounts expensed through mine production costs and business promotion of \$161 and \$112, respectively (December 31, 2020 – \$nil and \$nil). Additionally, \$148 (December 31, 2020 – \$nil) was capitalized to the Tahuehueto mineral interest and development asset. The portion of share-based compensation recorded is commensurate with the vesting terms of the options.

During the year ended December 31, 2021, the Company re-priced 1,853,333 stock options originally granted as to; 1,403,333 exercisable at \$0.71 until November 10, 2022, 400,000 exercisable at \$0.77 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. As a result of the re-priced options, an increase in the fair value of \$55 has been recognized as share-based compensation. The fair value of the

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Consolidated Financial Statements

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For the years ended December 31, 2021, and 2020

## 15. EQUITY RESERVES (continued)

stock options granted during the year ended December 31, 2021, and 2020, were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

|                             | 2021    | 2020    |
|-----------------------------|---------|---------|
| Risk-free interest rate     | 0.67%   | 0.36%   |
| Expected forfeiture rate    | Nil     | Nil     |
| Stock price volatility      | 119%    | 108%    |
| Expected life (in years)    | 3.94    | 4.65    |
| Weighted average fair value | \$ 0.29 | \$ 0.20 |

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

### b) Share purchase warrants

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

|                                       | Warrants<br>outstanding | Exercise<br>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                                | 26,700,000              | 0.31              |
| Exercised                             | (6,287,250)             | 0.24              |
| <b>Outstanding, December 31, 2021</b> | <b>65,303,659</b>       | <b>\$ 0.21</b>    |

| Expiry date      | Outstanding       |                | Remaining<br>contractual life<br>(years) |
|------------------|-------------------|----------------|--|
|                  | Granted           | Exercise price |  |
| February 4, 2022 | 5,281,971         | \$ 0.25        | 0.1                                      |
| May 27, 2022     | 1,163,615         | 0.25           | 0.4                                      |
| July 9, 2022     | 6,645,573         | 0.15           | 0.5                                      |
| March 29, 2023   | 24,712,500        | 0.30           | 1.2                                      |
| July 1, 2023     | 1,500,000         | 0.48           | 1.5                                      |
| October 16, 2023 | 11,000,000        | 0.18           | 1.8                                      |
| June 30, 2024    | 15,000,000        | 0.09           | 2.5                                      |
|                  | <b>65,303,659</b> | <b>\$ 0.21</b> | <b>1.4</b>                               |

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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For the years ended December 31, 2021, and 2020

## 16. FINANCE COSTS

Finance costs are primarily related to interest and accretion on the Company's debt facilities, lease liabilities, and provisions for reclamation and closure. The Company's finance costs during the years ended December 31, 2021 and 2020 are summarized as follows:

|   | Notes | For the years ended, |                   |
|---|-------|----------------------|-------------------|
|   |       | December 31, 2021    | December 31, 2020 |
| Interest on debt*                                       | 9, 10 | \$ 1,071             | \$ 1,682          |
| Bank fees and penalties                                 |       | 199                  | 70                |
| Interest on lease liabilities                           | 12    | 37                   | 40                |
| Amortization of deferred finance costs                  | 10    | 761                  | 274               |
| Accretion of provision for site reclamation and closure | 13    | 464                  | 374               |
| Accretion on streaming arrangements                     | 11    | 683                  | -                 |
| <b>Total finance costs</b>                              |       | <b>\$ 3,215</b>      | <b>\$ 2,440</b>   |

\*Finance costs for interest on debt include \$125 of non-cash accretion for the year ended December 31, 2021 (December 31, 2020 - \$nil).

## 17. OTHER INCOME AND EXPENSES

Other income and expenses are related to expected credit losses as a result of credit risks related to other receivables, gains and losses recognized on the extinguishment of debt terms, and changes in estimates related to the provisions for reclamation and closure that exceed the recoverable amount.

On September 28, 2021, the Company was notified that Accendo Banco, S.A. Institucion de Banca Multiple ("Accendo") was revoked by banking regulators in Mexico of its authorization to organize and operate as a multiple banking institution due to below the regulatory minimum levels of liquidity coverage ratio. As a result, Accendo began the liquidation process. On September 29, 2021, Minas de Campo Morado, S.A. de C.V and Real de la Bufo, S.A. de C.V processed the required formal documentation to obtain guarantees from Bank Savings Protection Fund entitling each entity to an insured amount of an equivalent to MXN\$2,768,169. As a result of the liquidation, the Company recorded an impairment of financial assets of the uninsured amounts held in deposit accounts with Accendo in the amount of \$3,663.

The Company's other income and expenses during the years ended December 31, 2021 and 2020 are summarized as follows:

|  | Notes | For the years ended, |                   |
|--|-------|----------------------|-------------------|
|  |       | December 31, 2021    | December 31, 2020 |
| Expected credit loss                                 | 5     | \$ 305               | \$ -              |
| (Gain) loss on extinguishment of debt, net           | 9, 10 | (198)                | -                 |
| Change of provision for site reclamation and closure | 13    | (460)                | -                 |
| Impairment of financial assets                       |       | 3,663                | -                 |
| Other  |       | 119                  | 3,967             |
| <b>Total other expenses</b>                          |       | <b>\$ 3,429</b>      | <b>\$ 3,967</b>   |

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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For the years ended December 31, 2021, and 2020

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

|  | As at December 31, 2021 |         | December 31, 2020 |         |
|--|-------------------------|---------|-------------------|---------|
| Accounts payable and accrued liabilities included in:                            |                         |         |                   |         |
| i) mineral interest and development asset  | \$                      | (700)   | \$                | (2,088) |
| ii) plant and equipment, net   |                         | 1,385   |                   | -       |
| Interest of long-term debt capitalized as mineral interest and development asset |                         | 2,652   |                   | 2,837   |
| Depreciation capitalized as mineral interest and development assets              |                         | 1,188   |                   | 1,081   |
| Right of use of assets amortization capitalized                                  |                         | 394     |                   | 176     |
| Change in estimate for site reclamation and closure                              |                         | (1,320) |                   | (114)   |
| Fair value of stock options exercised  |                         | 408     |                   | 10      |

  

|                               | December 31, 2021 |       | December 31, 2020 |     |
|-------------------------------|-------------------|-------|-------------------|-----|
| Interest paid (note 9 and 10) | \$                | 3,629 | \$                | 127 |
| Income taxes paid             |                   | -     |                   | -   |

## 19. EARNINGS PER SHARE

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

|   | December 31, 2021 |             | December 31, 2020 |             |
|---|-------------------|-------------|-------------------|-------------|
| Income (loss) attributable to common shareholders | \$                | 36,265      | \$                | (11,624)    |
| Weighted average number of shares basic           |                   | 236,217,565 |                   | 161,810,840 |
| Weighted average number of shares diluted         |                   | 273,772,025 |                   | 161,810,840 |
| Basic earnings (loss) per share                   | \$                | 0.15        | \$                | (0.07)      |
| Diluted earnings (loss) per share                 | \$                | 0.13        | \$                | (0.07)      |

For the year ended December 31, 2021, diluted weighted average number of shares excluded 2,300,000 stock options and 1,500,000 share purchase warrants that were anti-dilutive. For the year ended December 31, 2020, the Company incurred a net loss, therefore all outstanding stock options and share purchase warrants have been excluded from the diluted weighted average number of shares since the effect would be anti-dilutive.

## 20. 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:

|                          | December 31, 2021 |       | December 31, 2020 |     |
|--------------------------|-------------------|-------|-------------------|-----|
| Short-term benefits      | \$                | 850   | \$                | 585 |
| Share-based compensation |                   | 1,479 |                   | -   |
|                          | \$                | 2,329 | \$                | 585 |



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For the years ended December 31, 2021, and 2020

## 20. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

### b) Related party balances

As at December 31, 2021, directors and officers or their related companies were owed \$168 (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 December 31, 2021:

|                        |           | December 31, 2021 | December 31, 2020 |
|------------------------|-----------|-------------------|-------------------|
| Debt current portion   | \$        | 1,357             | \$ 4,127          |
| Debt long term portion |           | 3,379             | -                 |
| <b>Balance</b>         | <b>\$</b> | <b>4,736</b>      | <b>\$ 4,127</b>   |

During the year ended December 31, 2021, the Company incurred interest in the amount of \$483 (2020 - \$436) of which \$nil was paid (2020 - \$nil).

Escorfin acquired the following Units in the private placement:

During the year ended December 31, 2021, Escorfin participated in private placements dated March 30, 2021, whereby 500,000 Units were acquired by the related party (2020 – 7,266,196).

In addition to the Units acquired via private placement, Escorfin was granted 500,000 bonus shares and 1,500,000 bonus warrants in connection with the restructure of the LOC in Note 10(a).

### 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 year ended December 31, 2021, the amount exchanged for currency denominated in the Mexican Peso at exchange rates at the time of the conversion was \$28,912 (US\$23.1 million) (December 31, 2020 - \$nil). As at December 31, 2021, the amount owed to Bursametrica was \$nil (December 31, 2020 - \$nil).

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Consolidated Financial Statements

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For the years ended December 31, 2021, and 2020

## 21. INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is:

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Income (Loss) before income taxes  | \$ 36,265         | \$ (11,624)       |
|  | 27.00%            | 27.00%            |
| Expected income tax expense (recovery)   | 9,792             | (3,138)           |
| Increase (decrease) in taxes resulting from:   |                   |                   |
| Change in statutory, foreign tax, foreign exchange rates, and other                            | 3,663             | 4,922             |
| Permanent differences  | 2,273             | 1,019             |
| Share issuance costs   | (27)              | (15)              |
| Share-based compensation   | 659               | 11                |
| Change in deferred tax assets  | 1,462             | 287               |
| Adjustment to prior years' provision versus statutory tax returns and inflationary adjustments | (7,755)           | (3,469)           |
| Change in unrecognized deductible  | (10,067)          | 383               |
| <b>Income tax expense (recovery)</b>   | <b>\$ -</b>       | <b>\$ -</b>       |

The significant components of the Company's deferred tax assets and liabilities are as follows:

|  | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Exploration and evaluation assets              | \$ 4,362          | \$ 11,802         |
| Equipment                                      | 19,937            | 26,668            |
| Share issue costs                              | 40                | 17                |
| Allowable capital losses                       | 609               | 608               |
| Non-capital losses available for future period | 61,529            | 57,777            |
| Total  | \$ 86,477         | \$ 96,872         |
| Unrecognized deferred tax assets               | (86,477)          | (96,872)          |
| <b>Total deferred tax assets</b>               | <b>\$ -</b>       | <b>\$ -</b>       |

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

|  | December 31, 2021 | Expiry date range | December 31, 2020 | Expiry date range |
|--|-------------------|-------------------|-------------------|-------------------|
| Mineral interest and equipment                 | \$ 81,458         | No expiry date    | \$ 125,805        | No expiry date    |
| Intangible assets                              | -                 | n/a               | 2,888             | No expiry date    |
| Share issue costs                              | 150               | No expiry date    | 64                | No expiry date    |
| Allowable capital losses                       | 2,255             | No expiry date    | 2,252             | No expiry date    |
| Non-capital losses available for future period | 207,714           | 2022 to 2041      | 195,138           | 2022 to 2041      |
| Canada   | \$ 26,174         | 2026 to 2041      | \$ 25,472         | 2026 to 2040      |
| Mexico   | \$ 181,540        | 2022 to 2031      | \$ 169,665        | 2021 to 2030      |

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Notes to the Consolidated Financial Statements

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## 22. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Marketable securities are classified as level one and recorded at fair value using quoted market prices. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, obligation under share

purchase agreement, and short-term debt approximated their fair value because of the short-term nature of these instruments. The fair values of the Company's long-term debt approximated their carrying value as their interest rates are comparable to market interest rates.

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

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

### a) Credit risk

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

### b) Liquidity risk

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

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Consolidated Financial Statements

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For the years ended December 31, 2021, and 2020

## 22. FINANCIAL INSTRUMENTS (continued)

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\$ | 4,087,902           | MXN\$ 214,506,214         |
| Financial liabilities denominated in foreign currencies |      | (41,146,516)        | (297,177,855)             |
| <b>Net exposure</b>                                     | US\$ | <b>(37,058,614)</b> | <b>MXN\$ (82,671,641)</b> |

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$14,182.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$3,868.

#### 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 December 31, 2021 and December 31, 2020, 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 \$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 mineral interest and development assets may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced at the year ended December 31, 2021, and the year ended December 31, 2020, a 10% change in zinc and lead prices would result in an increase/decrease of approximately \$71 and \$20 respectively in revenues.

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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## 23. 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 amounts managed as capital by the Company as at December 31, 2021 is \$96,560 (December 31, 2020 – \$75,908).

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

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

In order to maximize ongoing 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, the issue of new shares through equity offerings, or sale of assets.

There has been no change to the Company's approach to capital management during the years ended December 31, 2021, and December 31, 2020.

The Company is not subject to externally imposed capital requirements.

## 24. 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                                 | \$        | 714           | \$        | 27,914         | \$ 28,628         |
| Non-current assets                             |           |               |           |                |                   |
| Mineral interest and development assets        |           | -             |           | 40,699         | 40,699            |
| Property, plant, and equipment, net            |           | 87            |           | 37,568         | 37,655            |
| Other assets and long term accounts receivable |           | 1,808         |           | 15             | 1,823             |
| <b>Total assets, December 31, 2021</b>         | <b>\$</b> | <b>2,609</b>  | <b>\$</b> | <b>106,196</b> | <b>\$ 108,805</b> |
| Current liabilities                            | \$        | 4,280         | \$        | 27,462         | \$ 31,742         |
| Non-current liabilities                        |           | 9,156         |           | 37,236         | 46,392            |
| <b>Total liabilities, December 31, 2021</b>    | <b>\$</b> | <b>13,436</b> | <b>\$</b> | <b>64,698</b>  | <b>\$ 78,134</b>  |

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## 24. 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, net            |           | -             |           | 17,063        | 17,063           |
| Other assets and long term accounts receivable |           | 1,354         |           | 5,056         | 6,410            |
| <b>Total assets, December 31, 2020</b>         | <b>\$</b> | <b>1,650</b>  | <b>\$</b> | <b>51,274</b> | <b>\$ 52,924</b> |
| Current liabilities                            | \$        | 15,047        | \$        | 58,153        | \$ 73,200        |
| Non-current liabilities                        |           | 87            |           | 6,348         | 6,435            |
| <b>Total liabilities, December 31, 2020</b>    | <b>\$</b> | <b>15,134</b> | <b>\$</b> | <b>64,501</b> | <b>\$ 79,635</b> |

During the year ended December 31, 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 December 31, 2021 trade receivables of \$1,629 (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:

| December 31, 2021                       | Campo Morado     | Real de la Bufo   | Other           | Altaley Mining    | Total            |
|---|------------------|-------------------|-----------------|-------------------|------------------|
|   | Mexico           | Mexico            | Mexico          | Canada            |                  |
| Revenue, net                            | \$ 69,684        | \$ -              | \$ -            | \$ -              | \$ 69,684        |
| Production costs and royalties          | (34,728)         | -                 | -               | (162)             | (34,890)         |
| Depletion and amortization              | (538)            | -                 | -               | -                 | (538)            |
| Mine operating earnings                 | \$ 34,418        | \$ -              | \$ -            | (162)             | \$ 34,256        |
| General expenses                        | 14,191           | (1,147)           | -               | (5,161)           | 7,883            |
| Other income (expenses)                 | 1,903            | (3,442)           | (245)           | (4,090)           | (5,874)          |
| Income tax                              | -                | -                 | -               | -                 | -                |
| <b>Net income (loss) for the period</b> | <b>\$ 50,512</b> | <b>\$ (4,589)</b> | <b>\$ (245)</b> | <b>\$ (9,413)</b> | <b>\$ 36,265</b> |

| December 31, 2020                       | Campo Morado      | Real de la Bufo | Other           | Altaley Mining    | Total              |
|---|-------------------|-----------------|-----------------|-------------------|--------------------|
|   | Mexico            | Mexico          | Mexico          | Canada            |                    |
| Revenue, net                            | \$ 23,157         | \$ -            | \$ -            | \$ -              | \$ 23,157          |
| Production costs and royalties          | (22,850)          | -               | -               | -                 | (22,850)           |
| Depletion and amortization              | (445)             | -               | -               | -                 | (445)              |
| Mine operating earnings                 | \$ (138)          | \$ -            | \$ -            | \$ -              | \$ (138)           |
| General expenses                        | (1,750)           | (1,259)         | -               | (1,749)           | (4,758)            |
| Other income (expenses)                 | (2,063)           | 1,284           | (211)           | (5,738)           | (6,728)            |
| <b>Net income (loss) for the period</b> | <b>\$ (3,951)</b> | <b>\$ 25</b>    | <b>\$ (211)</b> | <b>\$ (7,487)</b> | <b>\$ (11,624)</b> |

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Consolidated Financial Statements

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

For the years ended December 31, 2021, and 2020

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## 25. CONTINGENCIES

In the normal course of business, the Company is aware of certain claims and potential claims. The outcome of these claims and potential claims is not determinable at this time, although the Company does not believe these claims and potential claims will have a material adverse effect on the Company's results of operations or financial position.

### **Servicio de Administracion Tributaria Vs Minas de Campo Morado, S.A. de C.V.**

During the year 2019, the Servicio de Administracion Tributaria (SAT) performed an audit on the Company's subsidiary, Minas de Campo Morado, S. A. de C. V., in relation to value added tax ("VAT") and Impuesto Sobre la Renta ("ISR") claimed for the years 2014 and 2015. As a result of the audit, the SAT determined a difference in taxes payable of approximately \$1,825 (MXN\$29 million) and possible reduction of accumulated tax losses for \$10,090 (MXN\$158 million), which the Company is challenging through a legal process. As the Company has no assurance on the outcome of this legal procedure, it has accrued the full amount of the taxes payable, which are included in accounts payable and accrued liabilities.

### **Servicio de Administracion Tributaria Vs Prestadora de Servicios Arcelia, S.A. de C.V.**

During the year 2015, the Servicio de Administracion Tributaria (SAT) performed an audit on the Company's subsidiary, Prestadora de Servicios Arcelia, S. A. de C. V. (PSA), in relation to value added tax ("VAT") and Impuesto Empresarial Tasa Unica ("IETU") claimed. As a result of the audit, the SAT determined a difference in taxes payable of approximately \$1,825 (MXN\$28 million), as a result the Company has accrued the full amount of the claim, which is included in accounts payable and accrued liabilities.

### **Reynaldo D. Mac Allister Vs Minas de Campo Morado, S.A. de C.V. and Prestadora de Servicios Arcelia, S.A. de C.V.**

In July of 2013, Reynaldo D. Mac Allister ("Reynaldo") commenced a legal procedure against Minas de Campo Morado, S.A. de C.V. and Prestadora de Servicios Arcelia, S.A. de C.V. claiming Reynaldo was dismissed without cause. Reynaldo is suing for damages caused by the dismissal and other related labour obligations owing to him for a total amount of approximately US\$950,000. The Company is challenging this claim through a legal process and believes this case is without merit. An accrual of \$100 has been made for this case, which is included in accounts payable and accrued liabilities.

### **Size Solutions, S.A. de C.V.**

In March 2020, the Company terminated its business relationship with Size Solutions S.A. de C.V. ("Size"), a payroll service provider for Minas de Campo Morado, S.A. de C.V., and corporate offices in Mexico City. The Company received notice from Size of outstanding amounts payable by the Company as at December 31, 2019 in the amount of \$5,500 (MXN\$85.8 million). The Company has accrued \$3,200 (MXN\$52.3 million) in accounts payable and accrued liabilities as at December 31, 2021 and is disputing the difference. The Company believes Size's demand is without merit.

# Altaley Mining Corporation (Formerly Telson Mining Corporation)

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## 26. SUBSEQUENT EVENTS

Between January 1, 2022 and February 4, 2022, the Company issued 5,281,971 common shares for gross proceeds of \$1,320 through the exercise of 5,281,971 share purchase warrants.

On December 29, 2021, the Company executed a Loan Agreement (the "Loan Agreement") with Sail Natural Resources LP (the "Lender") whereby Lender 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 Gold Mine 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 has a term of 4 years, bears interest at 13.5% per annum, and is payable in 12 quarterly installments commencing March 10, 2023.

On March 17, 2022, the Company announced a Private Placement, whereby the Company intends to sell up to 14,285,714 units from treasury (the "Units") at a price of \$0.35 per Unit for aggregate gross proceeds of up to \$5 million. Each Unit shall consist of one common share of the Company (a "Unit Share") and one half of one transferable share purchase warrant (each whole warrant a "Warrant"). Each Warrant shall entitle the holder thereof to acquire one additional common share (a "Warrant Share") at a price of \$0.55 per Warrant Share for a period ending two (2) years (the "Expiry Date") following the closing of the Private Placement (the "Closing Date") subject to an acceleration clause. On April 22, 2022 the Company closed a first tranche on the issuance of 12,116,296 units for gross proceeds of \$4,241.