



TELSON MINING CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2019 and 2018

UNAUDITED

(Expressed in thousands of Canadian dollars)

TELSON MINING CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of Company's management.

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

May 29, 2019

Telson Mining Corporation

Condensed Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

| | March 31, 2019 | December 31, 2018 |
|--|------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 39 | \$ 116 |
| Marketable securities (note 4) | 4,851 | 5,296 |
| Accounts receivable (note 5) | 7,966 | 4,487 |
| Prepaid expenses and deposits | 285 | 787 |
| Inventories (note 6) | 7,923 | 7,643 |
| | 21,064 | 18,329 |
| Non-current assets: | | |
| Mineral interest and development assets (note 7) | 30,755 | 30,222 |
| Property, plant and equipment (note 8) | 19,599 | 19,157 |
| Other assets (note 3) | 383 | - |
| | 50,737 | 49,379 |
| Total assets | \$ 71,801 | \$ 67,708 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 23,971 | \$ 19,004 |
| Obligation under share purchase agreement (note 7(a)) | 267 | 273 |
| Current portion of finance lease obligations (note 11) | 500 | 512 |
| Current portion of the long-term debt (note 10) | 21,616 | 22,481 |
| Due to Nyrstar Mining Ltd. (note 7(b) and 9) | 8,680 | 8,685 |
| | 55,034 | 50,955 |
| Non-current liabilities: | | |
| Long-term debt (note 10) | 2,517 | 2,922 |
| Finance lease obligation (note 11) | 885 | 1,035 |
| Provision for site reclamation and closure | 5,389 | 5,015 |
| Due to Nyrstar Mining Ltd. (note 7(b) and 9) | 2,904 | 2,965 |
| | 11,695 | 11,937 |
| Total liabilities | \$ 66,729 | \$ 62,892 |
| Equity | | |
| Share capital (note 12) | \$ 59,742 | \$ 59,740 |
| Equity reserves (note 13) | 6,401 | 6,379 |
| Currency translation reserve | (1,981) | (1,532) |
| Deficit | (59,090) | (59,771) |
| Total equity | 5,072 | 4,816 |
| Total liabilities and equity | \$ 71,801 | \$ 67,708 |

Subsequent events (note 20)

Approved by the Board of Directors on May 29, 2019, and signed on the Company's behalf by:

"José Antonio Berlanga Balderas"
Director

"Ralph Shearing"
Director

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

Telson Mining Corporation

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive income (Loss)

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

| | Three months ended March 31, | |
|--|------------------------------|-------------------|
| | 2019 | 2018 |
| Revenues | | |
| Gross sales | \$ 15,335 | \$ – |
| Treatment and selling costs | (4,551) | – |
| | 10,784 | – |
| Cost of Sales | | |
| Production cost | \$ 6,595 | \$ – |
| Royalties | 310 | – |
| Accretion of provision for site reclamation and closure | 399 | – |
| Depletion, depreciation and amortization | 427 | – |
| | 7,731 | – |
| Mine operating profit | 3,053 | – |
| General Expenses: | | |
| Consulting fees, wages and benefits (note 16) | \$ 1,470 | \$ 444 |
| Legal and professional fees | 66 | 44 |
| Office, rent and administration | 455 | 174 |
| Regulatory, transfer agent and shareholder information | 11 | 36 |
| Travel, promotion and investor relations | 88 | 238 |
| Share-based compensation (note 13(a) and 16) | 23 | 361 |
| | 2,113 | 1,297 |
| Other (income) expense: | | |
| Interest income and other income | \$ (3) | \$ – |
| Recovery of expenses | – | (149) |
| Accretion of provision for site reclamation and closure | 9 | 125 |
| Change in value of marketable securities (note 4) | (195) | – |
| Interest expenses and other expenses | 611 | 27 |
| Foreign exchange gain | (163) | (1,082) |
| | 259 | (1,079) |
| Net income (loss) for the period | \$ 681 | \$ (218) |
| Other comprehensive loss | | |
| Items that may be reclassified subsequently to profit or (loss) | | |
| Foreign currency translation adjustment | (449) | (1,578) |
| Total items that may be reclassified subsequently to profit or (loss) | (449) | (1,578) |
| Total comprehensive income (loss) for the period | \$ 232 | \$ (1,796) |
| Weighted average number of common shares outstanding | | |
| Basic | 139,568,819 | 124,763,329 |
| Diluted | 154,858,386 | 124,763,329 |
| Earnings (loss) per share (note 15) | | |
| Basic | \$ 0.00 | \$ (0.00) |
| Diluted | \$ 0.00 | \$ (0.00) |

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

Telson Mining Corporation
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars, except for number of common shares)

| | Number of common shares | Share capital | Equity reserves | Currency translation reserve | Deficit | Total |
|--|-------------------------------|------------------|--------------------|------------------------------------|--------------------|--------------|
| Balance at December 31, 2017 | 124,218,120 | \$ 54,757 | \$ 1,942 | \$ (1,339) | \$ (53,530) | 1,830 |
| Share purchase warrants exercised | 1,061,324 | 127 | - | - | - | 127 |
| Stock options exercised | 333,331 | 43 | - | - | - | 43 |
| Fair value of stock options allocated to share capital issued on exercise | - | 40 | (40) | - | - | - |
| Share-based compensation (note 13) | - | - | 361 | - | - | 361 |
| Loss and comprehensive loss for the period | - | - | - | (1,578) | (218) | (1,796) |
| Balance as at March 31, 2018 | 125,612,775 | \$ 54,967 | \$ 2,263 | \$ (2,917) | \$ (53,748) | 565 |
| Balance as at December 31, 2018 | 139,559,152 | \$ 59,740 | \$ 6,379 | \$ (1,532) | \$ (59,771) | 4,816 |
| Stock options exercised | 10,000 | 1 | - | - | - | 1 |
| Fair value of stock options allocated to share capital issued on exercise | - | 1 | (1) | - | - | - |
| Share-based compensation (note 13) | - | - | 23 | - | - | 23 |
| Income and comprehensive income for the period | - | - | - | (449) | 681 | 232 |
| Balance as at March 31, 2019 | 139,569,152 | \$ 59,742 | \$ 6,401 | \$ (1,981) | \$ (59,090) | 5,072 |

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

Telson Mining Corporation

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

| | Three months ended March 31, | |
|--|------------------------------|-----------------|
| | 2019 | 2018 |
| Cash (used in) provided by: | | |
| Operating activities: | | |
| Income (loss) for the period | \$ 681 | \$ (218) |
| Items not involving cash: | | – |
| Depletion and depreciation | 427 | – |
| Accretion and change of provision for site reclamation and closure | 408 | 125 |
| Share-based compensation (note 13) | 23 | 361 |
| Accrued interest on debt net of interest paid | 209 | – |
| Revaluation of marketable securities | (195) | – |
| Changes in non-cash working capital: | | |
| Accounts receivable | (3,502) | (1,960) |
| Prepaid expenses and deposits | 499 | (181) |
| Inventories | (325) | (492) |
| Accounts payable and accrued liabilities | 3,826 | 451 |
| Cash provided by (used in) operating activities | 2,051 | (2,996) |
| Investing activities: | | |
| Plant and equipment additions | (1,095) | (831) |
| Mineral interest and development assets additions | (261) | 478 |
| Redeemed of marketable securities | 608 | – |
| Cash used in investing activities | (748) | (353) |
| Financing activities: | | |
| Proceeds in connection to warrants and/or stock options exercised | 1 | 171 |
| Repayment Nyrstar Mining Ltd | – | (206) |
| Repayment of leases | (119) | – |
| Repayment of debt | (906) | (1,591) |
| Cash used in financing activities | (1,024) | (1,626) |
| Effect of foreign exchange rate changes on cash | (356) | (343) |
| Decrease in cash | (77) | (5,318) |
| Cash, beginning of the period | 116 | 11,997 |
| Cash, end of the period | \$ 39 | \$ 6,679 |

Supplemental cash flow information (note 14)

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

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

1. NATURE OF OPERATIONS

Telson Mining Corporation, (the “Company” or “Telson”) 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 “TSN”.

The Company’s principal business activity is 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 project. Effective May 15, 2018 the Company completed commissioning of Campo Morado mine and declared commercial production. There can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. These conditions may cast significant doubt upon the Company’s ability to continue as a going concern.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company has a working capital deficit as at March 31, 2019 of \$33,970 (December 31, 2018 - \$32,626) and accumulated deficit of \$59,090 (December 31, 2018 - \$59,771).

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company’s most recent annual financial statements, except as disclosed in Note 3. These condensed interim consolidated financial statements do not include all of the information required for full consolidated annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018, which were filed under the Company’s profile on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 29, 2019.

(b) Basis of presentation and consolidation

Certain prior year’s figures and line items have been reclassified to conform to the current year’s presentation.

These condensed interim consolidated financial statements include the financial statements of Telson Mining Corporation, and entities controlled by the Company (its subsidiaries). The following is a list of subsidiaries:

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

2. BASIS OF PRESENTATION (continued)

(b) Basis of presentation and consolidation (continued)

| 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 | 99% |
| 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.

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

(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 US dollars and MXN\$ to Mexican pesos. All monetary amounts presented throughout these condensed interim consolidated financial statements, independently from the currency, are presented in thousands except for per tonne amounts, share amounts and per share values.

(d) Critical accounting estimates and judgments

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

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

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in these condensed interim consolidated financial statements were the same as those applied to the audited consolidated financial statements as at the year ended December 31, 2018.

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

3. CHANGES IN ACCOUNTING POLICIES

The Company has applied the following revised or new IFRS that were issued and effective January 1, 2019:

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases ("IAS 17") and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of 12 months or less) and leases of low value assets.

In applying IFRS 16 for all leases, except as noted above, the Company (i) recognizes the ROU asset and lease liabilities in the consolidated interim balance sheet, initially measured at the present value of future lease payments; (ii) recognizes the depreciation of ROU assets and interest on lease liabilities in the consolidated interim statement of income (loss); and (iii) separates the total amount of cash paid into a principal portion and interest (included within financing activities) in the consolidated interim statement of cash flows. For short-term leases and leases of low value assets, the Company has opted to recognize a lease expense on a straight-line basis.

In transitioning to IFRS 16, the Company reviewed its contracts to identify whether they are or contain a lease arrangement. The review identified contracts containing leases that have an equivalent increase to both, the Company's ROU assets and lease liabilities. The cumulative effect of the changes made to the condensed interim consolidated statement of financial position at January 1, 2019 for the adoption of IFRS 16 was a recognition of the right of use asset within other assets in the amount of \$383 and property plant and equipment by \$105. The weighted average discount rate for lease liabilities initially recognized on adoption of IFRS 16 was 11%.

New accounting policy in respect to leases under IFRS 16

The Company assesses whether a contract is or contains a lease, at the inception of a contract. The Company recognizes a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease, with the exception of short-term and low value leases, which are recognized in the consolidated interim statement of income (loss) on a straight-line basis over the lease term.

The ROU asset is initially measured based on the present value of lease payments, lease payments made at or before the commencement date, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset and is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

4. MARKETABLE SECURITIES

| | March 31, 2019 Fair value | December 31, 2018 Fair Value |
|-------------------------------------|------------------------------|---------------------------------|
| Opening balance | \$ 5,296 | \$ - |
| Purchase of marketable securities | - | 5,180 |
| Redemption of marketable securities | (608) | (166) |
| Realized and unrealized gain | 195 | 126 |
| Foreign exchange adjustment | (32) | 156 |
| Total marketable securities | \$4,851 | \$ 5,296 |

The Company holds money market investment funds which are classified as FVTPL and are recorded at fair value using the quoted market prices as at March 31, 2019 and December 31, 2018; therefore, they are classified as level 1 within the fair value hierarchy.

5. ACCOUNTS RECEIVABLE

| | March 31, 2019 | December 31, 2018 |
|--|-----------------|-------------------|
| Trade receivables | \$ 3,179 | \$ 700 |
| Value added taxes and other taxes receivable | 3,601 | 3,490 |
| Other receivables | 1,186 | 297 |
| Total accounts receivable | \$ 7,966 | \$ 4,487 |

The Company has a concentrate off-take agreement where the customer will purchase 100% of the metals concentrate produced at the Campo Morado (effective September 11, 2017) and Tahuehueto (effective December 7, 2017) mining properties.

6. INVENTORIES

| | March 31, 2019 | December 31, 2018 |
|--------------------------|-----------------|-------------------|
| Ore in-process | \$ 1,821 | \$ 995 |
| Concentrates | 1,230 | 1,182 |
| Materials and supplies | 4,872 | 5,466 |
| Total inventories | \$ 7,923 | \$ 7,643 |

7. MINERAL INTEREST AND DEVELOPMENT ASSETS

a) Tahuehueto 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 \$267 (December 31, 2018 - \$273 (US\$200)) to some of the Real de la Bufa's shareholders.

Based upon regional reconnaissance work in and around Tahuehueto, Telson staked additional concessions to encompass most of the prospective ground in the Tahuehueto district.

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

a) Tahuehueto project (continued)

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 made an initial payment of US\$47 and will subsequently make equal recurring yearly payments that will increase by a rate of 5% compounded annually.

b) Campo Morado project

On June 13, 2017, the Company purchased all the shares of the Mexican subsidiary companies of Nyrstar Mining Ltd. and Nyrstar Mexico Resources Corp. (collectively Nyrstar), including Nyrstar Campo Morado, S.A. de C.V. (Nyrstar México), such subsidiary companies are now wholly owned subsidiaries of Telson. After the Company purchased the Campo Morado Project, the name of subsidiary company Nyrstar Campo Morado, S.A. de C.V. was changed to Minas de Campo Morado, de S.A. de C.V.

The Campo Morado property comprises seven mineral concessions located in Guerrero state, Mexico. The Campo Morado project is subject to a royalty between 2% and 3% of the net value of liquidation 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 acquisition, the seller retained the right to receive a variable purchase price 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. Telson shall pay Nyrstar the greater of either:

- a) US\$2,000 per tonne of zinc sold if the zinc price received is over US\$2,100 per tonne; or
- b) a percentage that ranges between 0.5% and 4.25% of the net smelter revenues received from zinc when the price of zinc ranges between US\$1,200 and US\$2,500 from the Campo Morado mine.

The Company maintains the right under the Campo Morado Agreement to purchase 100% of the variable purchase price at any time for US\$4,000.

As at March 31, 2019 (as described in Note 9), the Company has recorded \$11,584 (US\$8,668), (December 31, 2018 \$11,650 (US\$8,500) due to Nyrstar Mining Ltd. on the condensed interim consolidated statement of financial position, representing the balance of Campo Morado’s loan agreement of US\$5,500 (December 31, 2018 - US\$5,500); the balance of the contingent consideration of US\$2,973 (December 31, 2018 - US\$2,900) and interest payable of US\$195 (December 31, 2018 – US\$100).

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements
Unaudited – (Expressed in thousands of Canadian dollars, unless otherwise stated)

For the three months ended March 31, 2019 and 2018

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets

For the period ended March 31, 2019 and the year ended December 31, 2018, the Company capitalized the following acquisition and developments costs:

| | Tahuehueto | Campo Morado | Total |
|---|-----------------|------------------|------------------|
| Balance as at December 31, 2018 | \$ 6,393 | \$ 23,829 | \$ 30,222 |
| Costs incurred: | | | |
| Assaying, data and maps | 28 | - | 28 |
| Camp cost, equipment and field supplies | 1,737 | - | 1,737 |
| Development costs | 95 | - | 95 |
| Freight and related costs | 127 | - | 127 |
| Fuel and consumables | 238 | - | 238 |
| Supplies, lubricants and other | 124 | - | 124 |
| Project general and office expenses | 74 | - | 74 |
| Salaries and wages | 248 | - | 248 |
| Travel and accommodation | 4 | - | 4 |
| Depreciation capitalized | 269 | - | 269 |
| Interest capitalized, net | 490 | - | 490 |
| Pre - commercial sales, net | (1,903) | - | (1,903) |
| Total additions for the period | 1,531 | - | 1,531 |
| Depletion for the period | - | (377) | (377) |
| Foreign currency adjustment | (130) | (491) | (621) |
| Balance as at March 31, 2019 | \$ 7,794 | \$ 22,961 | \$ 30,755 |

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

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

| | Tahuehueto | Campo Morado | Total |
|--|-----------------|------------------|------------------|
| Balance as at December 31, 2017 | \$ - | \$ 32,415 | \$ 32,415 |
| Costs incurred: | | | |
| Assaying, data and maps | 39 | - | 39 |
| Camp cost, equipment and field supplies | 1,372 | 725 | 2,097 |
| Development costs | 1,285 | - | 1,285 |
| Ore processing | 1,718 | - | 1,718 |
| Freight and related costs | 2,148 | 1,570 | 3,718 |
| Fuel and consumables | 574 | 647 | 1,221 |
| Supplies, lubricants and other | - | 2,775 | 2,775 |
| Electricity | - | 947 | 947 |
| Project general and office expenses | 289 | 1,342 | 1,631 |
| Geological consulting services | - | 232 | 232 |
| Permitting, environmental and community costs | 386 | (6) | 380 |
| Salaries and wages | 1,496 | 2,590 | 4,086 |
| Travel and accommodation | 89 | (6) | 83 |
| Depreciation capitalized | 634 | 108 | 742 |
| Royalties | 157 | 360 | 517 |
| Interest capitalized, net | 1,167 | 163 | 1,330 |
| Pre - commercial sales | (5,653) | (19,055) | (24,708) |
| Total additions for the year | 5,701 | (7,608) | (1,907) |
| Depletion for the year | - | (494) | (494) |
| Change of provision for site reclamation and closure | 287 | (1,675) | (1,388) |
| Foreign currency adjustment | 405 | 1,191 | 1,596 |
| Balance as at December 31, 2018 | \$ 6,393 | \$ 23,829 | \$ 30,222 |

Effective May 15, 2018 the Company declared commercial production at Campo Morado mine; therefore, the Company stopped capitalizing costs and expenses related to mineral interest and development assets for this project and since then, all sales and cost of sales are now presented in the condensed interim consolidated statement of income (loss) and comprehensive income (loss).

Included in mineral interest and development assets there are \$490 (December 31, 2018 - \$1,330) of capitalized borrowing costs based on a capitalization rate of 100%.

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018

8. PROPERTY, PLANT AND EQUIPMENT

| | Land | Mine plant & infrastructure | Machinery & equipment | Construction in progress | Finance leases (Note 11) | Total |
|----------------------------------|----------|-----------------------------|-----------------------|--------------------------|--------------------------|-----------|
| Cost | | | | | | |
| Balance, December 31, 2017 | \$ 3,300 | \$ 2,228 | \$ 4,009 | \$ - | \$ 2,315 | \$ 11,852 |
| Additions | - | - | 6,251 | 1,851 | - | 8,102 |
| Balance, December 31, 2018 | \$ 3,300 | \$ 2,228 | \$ 10,260 | \$ 1,851 | \$ 2,315 | \$ 19,954 |
| Additions | - | - | 19 | 1,076 | - | 1,095 |
| Balance, March 31, 2019 | \$ 3,300 | \$ 2,228 | \$ 10,279 | \$ 2,927 | \$ 2,315 | \$ 21,049 |
| Accumulated amortization | | | | | | |
| Balance, December 31, 2017 | \$ - | \$ 36 | \$ 96 | \$ - | \$ - | \$ 132 |
| Amortization for the year | - | 47 | 565 | - | 40 | 852 |
| Balance, December 31, 2018 | \$ - | \$ 83 | \$ 661 | \$ - | \$ 40 | \$ 984 |
| Amortization for the period | - | 46 | 213 | - | 59 | 318 |
| Balance, March 31, 2019 | \$ - | \$ 129 | \$ 874 | \$ - | \$ 99 | \$ 1,302 |
| Foreign currency movement | | | | | | |
| Balance, December 31, 2018 | \$ 53 | \$ 34 | \$ 63 | \$ - | \$ 37 | \$ 187 |
| Balance, March 31, 2019 | \$ (25) | \$ (18) | \$ (74) | \$ (14) | \$ (17) | \$ (148) |
| Net book value | | | | | | |
| Balance, December 31, 2018 | \$ 3,353 | \$ 2,179 | \$ 9,662 | \$ 1,851 | \$ 2,112 | \$ 19,157 |
| Balance, March 31, 2019 | \$ 3,275 | \$ 2,081 | \$ 9,331 | \$ 2,913 | \$ 1,999 | \$ 19,599 |

9. DUE TO NYRSTAR MINING LTD.

As at March 31, 2019 and December 31, 2018, the Company has recorded the following amounts due to Nyrstar Mining Ltd.:

| | Consideration payable due to acquisition | Contingent consideration | Total |
|------------------------------------|--|--------------------------|------------------|
| Balance, December 31, 2017 | \$ 20,743 | \$ 5,021 | \$ 25,764 |
| Consideration repayment (US\$8M) | (10,653) | - | (10,653) |
| Loan principal repayment (US\$2M) | (3,948) | - | (3,948) |
| Contingent consideration repayment | - | (1,331) | (1,331) |
| Accrued interest | 550 | - | 550 |
| Interest paid | (445) | - | (445) |
| Foreign exchange adjustment | 1,346 | 367 | 1,713 |
| Balance, December 31, 2018 | 7,593 | 4,057 | 11,650 |
| Accrued interest | 216 | - | 216 |
| Interest paid | (53) | - | (53) |
| Foreign exchange adjustment | (146) | (83) | (229) |
| Balance, March 31, 2019 | \$ 7,610 | \$ 3,974 | \$ 11,584 |

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For the three months ended March 31, 2019 and 2018

9. DUE TO NYRSTAR MINING LTD. (continued)

On June 12, 2018, the Company renegotiated the terms for the remaining balance of the Campo Morado Agreement and entered into a loan agreement with Nyrstar (“Campo Morado Loan Agreement”). On November 19, 2018, the Company reached an agreement with Nyrstar to amend the terms of the Campo Morado Loan Agreement to mainly reduce the monthly principal repayment from US\$1,000 to US\$500, which also effectively extended the repayment period of the balance owing.

The main terms of the amended Campo Morado Loan Agreement are as follows:

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

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

| | Consideration payable due to acquisition | Contingent consideration | Total |
|-----------------------------------|---|-----------------------------|------------------|
| Current portion | \$ 7,610 | \$ 1,070 | \$ 8,680 |
| Long term portion | - | 2,904 | 2,904 |
| Balance, March 31, 2019 | \$ 7,610 | \$ 3,974 | \$ 11,584 |
| Current portion | \$ 7,594 | \$ 1,091 | \$ 8,685 |
| Long term portion | - | 2,965 | 2,965 |
| Balance, December 31, 2018 | \$ 7,594 | \$ 4,056 | \$ 11,650 |

Under the Campo Morado Loan Agreement, at the option of the lender any outstanding balance and accrued interest will become immediately due and payable if the Company does not pay, within three days of the due date any amount payable, or in the event the Company falls into insolvency. As at March 31, 2019 the Company has missed three subsequent monthly payments and interests. Therefore, the outstanding owing balance is due and payable immediately; however, the Company is currently working on negotiating with Nyrstar new terms on the loan agreement but there is no assurance the Company will be successful in reaching new terms on this loan.

10. 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 MXN\$150,000 (the “LOC”). The funds drawn down under the LOC accrue interest at a rate of 15% per year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back

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10. LONG-TERM DEBT (continued)

a) Line of Credit (continued)

any cash disbursements in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default of any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The funds from the LOC are to be applied towards the Company's investment plan established in its completed Internal Scoping Study. The obligations of the Company under the LOC are secured by substantially all the Real de la Bufa's assets, including certain mining concessions.

The Company has drawn down from its LOC a total amount of MXN\$65,000 primarily to further its Tahuehueto project. The continuity of the outstanding long-term debt is as follows:

| | Amount |
|-----------------------------------|-----------------|
| Balance, December 31, 2017 | \$ 4,659 |
| Principal repayments | (1,327) |
| Interest paid | (870) |
| Accrued interest | 467 |
| Foreign exchange adjustment | 451 |
| Balance, December 31, 2018 | \$ 3,380 |
| Accrued interest | 116 |
| Foreign exchange adjustment | (3) |
| Balance, March 31, 2019 | \$ 3,493 |

| | March 31, 2019 | December 31, 2018 |
|-------------------|-----------------------|--------------------------|
| Current portion | \$ 976 | \$ 458 |
| Long term portion | 2,517 | 2,922 |
| Balance | \$ 3,493 | \$ 3,380 |

| Year of repayment | Amount |
|--------------------------|---------------|
| 2019 | \$ 573 |
| 2020 | 1,552 |
| 2021 | 1,368 |

b) Loan Facility Campo

On September 11, 2017, the Company entered into a loan agreement ("Loan Agreement Campo") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the amount of US\$5,000 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 also entered into an Offtake agreement with Minas de Campo Morado, S.A. de C.V., ("Offtake Agreement Campo") in which the Company will sell all its zinc and lead concentrates for a fifty-one-month term starting October 2017.

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For the three months ended March 31, 2019 and 2018

10. LONG-TERM DEBT (continued)

b) Loan Facility Campo (continued)

Under the terms of the Loan Agreement Campo, the Company is subject to certain covenants, including the Company must maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is not in compliance with the covenants as at March 31, 2019 and December 31, 2018, therefore the outstanding balances are presented within current liabilities. The loan is secured by all of the outstanding shares of Minas de Campo Morado, S.A. de C.V. The continuity of the loan is as follows:

| | Amount |
|--------------------------------|-----------------|
| Balance, December 31, 2017 | \$ 6,427 |
| Principal repayments | (1,944) |
| Interest paid | (396) |
| Accrued interest | 428 |
| Foreign exchange adjustment | 298 |
| Balance, December 31, 2018 | \$ 4,813 |
| Principal repayments | (222) |
| Interest paid | (106) |
| Accrued interest | 104 |
| Foreign exchange adjustment | (98) |
| Balance, March 31, 2019 | \$ 4,491 |

| | March 31, 2019 | December 31, 2018 |
|-------------------|-----------------------|--------------------------|
| Current portion | \$ 4,491 | \$ 4,813 |
| Long term portion | - | - |
| Balance | \$ 4,491 | \$ 4,813 |

c) Facility Real

On December 7, 2017, the Company entered into a loan agreement (“Loan Agreement Real”) with Trafigura Mexico, S.A. de C.V. in the amount of US\$15,000 for financing working capital, rehabilitation and operation of the Tahuehueto mining project. The Loan Facility is available in three tranches, the first tranche equivalent to US\$7,500 was received upon signing of the agreement. The second tranche equal to US\$5,000 was received on November 6, 2018. The third tranche for US\$2,500 was available in nine months after the signing of the agreement but shall not pass nine months after the signing of the agreement subject to securing additional funding of US\$2,500 in the form of equity and/or a loan and at least US\$2,000 of these funds are invested on capital expenditures. The loan bears interest at an effective annual rate equivalent to LIBOR (1Y) 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 also entered into an Offtake agreement with Real de la Bufa, S.A. de C.V., (“Offtake Agreement Real”) in which the Company will sell all its zinc and lead concentrates for a sixty-month term, starting January 2018.

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10. LONG-TERM DEBT (continued)

c) Facility Real (continued)

Under the terms of the Loan Agreement Real, the Company is subject to certain covenants, including the Company must maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is not in compliance with the covenants as at March 31, 2019, therefore the outstanding balance is presented within current liabilities. The loan is secured by the Tahuehueto mining concessions and certain property plant and equipment. The continuity of the loan is as follows:

| | Amount | |
|--------------------------------|------------------|--|
| Balance, December 31, 2017 | \$ 9,461 | |
| Interest paid | (861) | |
| Cash advance second tranche | 6,600 | |
| Accrued interest | 1,043 | |
| Foreign exchange adjustment | 967 | |
| Balance, December 31, 2018 | \$ 17,210 | |
| Interest paid | (431) | |
| Principal repayment | (685) | |
| Accrued interest | 363 | |
| Foreign exchange adjustment | (308) | |
| Balance, March 31, 2019 | \$ 16,149 | |

| | March 31, 2019 | December 31, 2018 |
|-------------------|-----------------------|--------------------------|
| Current portion | \$ 16,149 | \$ 17,210 |
| Long term portion | - | - |
| Balance | \$ 16,149 | \$ 17,210 |

11. FINANCE LEASES

During the year ended December 31, 2017, the Company entered into three equipment lease contracts which formed part of a US\$2,000 Equipment Lease Line of Credit. These equipment lease contracts are accounted for as finance leasing contracts and were included as a non-cash addition to property, plant and equipment, with a corresponding amount recognized as a finance lease obligation. Direct transaction costs have been added to the cost base of the leased assets. Lease payments under the Equipment Lease Facility are payable monthly and comprise principal payments and interest, interest being at a fixed rate between 7.5% and 8.10%. Total finance expenses incurred are capitalized to property, plant and equipment. As at March 31, 2019, the Company recognized \$1,385 (December 31, 2018 - \$1,547) as a finance lease obligation and \$1,999 (December 31, 2018 - \$2,112) as property, plant and equipment which included \$461 paid in deposits at the time the Company entered into these contracts. The continuity of the leases is as follows:

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For the three months ended March 31, 2019 and 2018

11. FINANCE LEASES (continued)

| | Amount |
|-----------------------------------|-----------------|
| Balance, December 31, 2017 | \$ 1,785 |
| Lease repayments | (381) |
| Foreign exchange adjustment | 143 |
| Balance, December 31, 2018 | \$ 1,547 |
| Lease repayments | (129) |
| Foreign exchange adjustment | (33) |
| Balance, March 31, 2019 | \$ 1,385 |

| | March 31, 2019 | December 31, 2018 |
|-------------------|-----------------------|--------------------------|
| Current portion | \$500 | \$ 512 |
| Long term portion | 885 | 1,035 |
| Balance | \$ 1,385 | \$ 1,547 |

Future minimum lease payments pursuant to the Company's finance leases remain as follows, despite the classification of the lease obligation as current:

| | Up to 1 year | 1 – 5 Years | Total |
|------------------------|---------------------|--------------------|--------------|
| Minimum lease payments | \$ 500 | \$ 885 | \$ 1,385 |

12. SHARE CAPITAL

Common share transactions:

Three Months ended March 31, 2018

- i. During the period ended March 31, 2019, the Company issued 10,000 common shares for gross proceeds of \$1 in connection with stock options exercised. The fair value of the options exercised was \$1 and was transferred from the equity reserves and recorded against share capital.

Three Months ended March 31, 2018

- ii. During the period ended March 31, 2018, the Company issued 1,061,324 common shares for gross proceeds of \$127 in connection with share purchase warrants exercised.
- iii. During the period ended March 31, 2018, the Company issued 333,331 common shares for gross proceeds of \$43 in connection with stock options exercised. The fair value of the options exercised was \$40 and was transferred from the equity reserves and recorded against share capital.

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For the three months ended March 31, 2019 and 2018

13. EQUITY RESERVES

a) Share-based compensation

The Company has a stock option plan (the “Plan”) providing for the issuance of stock options to directors, officers, employees and other service providers enabling them to acquire up to 10% of the issued and outstanding common stocks of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the Board of Directors. Stock options can be granted for a maximum term of 10 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to 33.33% on the date of the grant and 33.33% every six months thereafter for a total vesting period of 12 months.

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

| | Number of stock options | Weighted average exercise price |
|------------------------------------|----------------------------|---------------------------------------|
| Outstanding, December 31, 2017 | 9,993,100 | \$ 0.35 |
| Granted | 1,450,000 | 0.79 |
| Exercised | (705,934) | 0.13 |
| Outstanding, December 31, 2018 | 10,737,166 | 0.43 |
| Exercised | (10,000) | 0.13 |
| Outstanding, March 31, 2019 | 10,727,166 | \$ 0.43 |

As at March 31, 2019, the number of stock options outstanding and exercisable was:

| Expiry date | Outstanding | | Exercisable | |
|-------------------|----------------------|-------------------|--|----------------------|
| | Number of options | Exercise price | Remaining contractual life (years) | Number of options |
| April 16, 2019 | 1,000,000 | \$ 0.80 | 0.04 | 1,000,000 |
| March 22, 2021 | 5,447,166 | \$ 0.13 | 1.98 | 5,447,166 |
| November 11, 2022 | 3,830,000 | \$ 0.71 | 3.62 | 3,830,000 |
| April 16, 2023 | 400,000 | \$ 0.77 | 4.05 | 266,666 |
| April 23, 2023 | 50,000 | \$ 0.72 | 4.07 | 33,334 |
| | 10,727,166 | | | 10,577,166 |

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and others providing similar services. During the three months ended March 31, 2019 and 2018 an amount of \$23 (2018 - \$361) was expensed as share-based compensation. The portion of share-based compensation recorded is based on the vesting schedule of the options.

During the three months ended March 31, 2019 and 2018, the Company did not grant stock options.

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For the three months ended March 31, 2019 and 2018

13. EQUITY RESERVES (continued)

b) Share purchase warrants

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

| | Warrants outstanding | Exercise price |
|--|-------------------------|-------------------|
| Outstanding, December 31, 2017 | 5,520,035 | \$ 0.12 |
| Exercised | (5,510,294) | 0.12 |
| Issued | 4,562,401 | 1.25 |
| Expired | (9,741) | 0.12 |
| Outstanding, December 31, 2018 and March 31, 2019 | 4,562,401 | \$ 1.25 |

| Outstanding | | | |
|-----------------|-----------------------|----------------|--|
| Expiry date | Number of warrants | Exercise price | Remaining contractual life (years) |
| October 9, 2020 | 4,562,401 | \$ 1.25 | 1.78 |

14. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three months ended March 31, 2019 | Three months ended March 31, 2018 |
|--|--|--|
| Accounts payable and accrued liabilities included in mineral interest and development assets | \$ (1,002) | \$ 476 |
| Interest of long-term debt capitalized as mineral interest and development assets | 490 | 511 |
| Depreciation capitalized as mineral interest and development assets | 269 | 161 |
| Fair value of stock options exercised | 1 | - |
| | Three months ended March 31, 2019 | Three months ended March 31, 2018 |
| Interest paid (note 9 and 10) | \$ 590 | \$ 229 |
| Income taxes paid | - | - |

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15. EARNINGS (LOSS) PER SHARE

For the three months ended March 31, 2019 and 2018, the calculation of basic and diluted earnings per share is based on the following data:

| | Three months ended March 31, 2019 | Three months ended March 31, 2018 |
|---|--------------------------------------|---|
| Net income (loss) attributable to common shareholders | \$ 681 | \$ (218) |
| Weighted average number of shares – Basic | 139,568,819 | 124,763,329 |
| Weighted average number of shares – Diluted | 154,858,386 | 124,763,329 |
| Basic earnings (loss) per share | \$ 0.00 | \$ (0.00) |
| Diluted earnings (loss) per share | \$ 0.00 | \$ (0.00) |

The Company incurred a net loss for the three months ended March 31, 2018, therefore all outstanding stock options and share purchase warrants have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

16. RELATED PARTY BALANCES AND TRANSACTIONS

a) Compensation of key management personnel:

Key management personnel include members of the Board, the Chief Executive Officer, President, Chief Financial Officer and the Vice President, Corporate Development. The net aggregate compensation paid or payable and related party transactions are shown as follows:

| | Three months ended March 31, 2019 | Three months ended March 31, 2019 |
|--------------------------|--------------------------------------|---|
| Short-term benefits | \$ 233 | \$ 209 |
| Share-based compensation | 20 | 241 |
| | \$ 253 | \$ 450 |

b) Related party balances:

As at March 31, 2019, directors and officers or their related companies were owed \$118 (December 31, 2018 – \$100) 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.

As at March 31, 2019, directors and officers or their related companies owed the Company \$16 (December 31, 2018 – \$10) included in prepaid expenses and deposits.

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 10a). Escorfin is a private

Telson Mining Corporation

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16. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

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 March 31, 2019 and December 31, 2018:

| | March 31, 2019 | December 31, 2018 |
|-------------------|----------------|-------------------|
| Debt balance | \$ 3,493 | \$ 3,381 |
| Interest incurred | 116 | 71 |
| Interest paid | - | - |

17. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

Financial instruments recorded at fair value on the condensed interim consolidated statements of financial position are classified using a fair value hierarchy that reflects the significant 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 due to Nyrstar Mining Ltd. approximated their fair value because of the short-term nature of these instruments. The fair values of the Company’s long-term debt and finance lease obligations approximated their carrying value as their interest rates are comparable to market interest rates.

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

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

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17. FINANCIAL INSTRUMENTS (continued)

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and marketable securities are held through large Canadian, international and foreign national financial institutions. The Company's accounts receivable consists of trade receivables from concentrate sales and taxes receivable from federal government agencies. Trade receivables are held with one large international metals trading company. The Company mitigates this risk by transacting only with reputable financial institutions and requiring provisional payments of 90% of the value of the concentrate shipped to a single well-known buyer. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants.

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 denominated in | |
|---|------------------------|--------------------|
| | US Dollars | Mexican Peso |
| Financial assets denominated in foreign currencies | \$ 3,034 | \$ 9,412 |
| Financial liabilities denominated in foreign currencies | (39,808) | (25,810) |
| Net exposure | \$ (36,774) | \$ (16,398) |

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$3,677.

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17. FINANCIAL INSTRUMENTS (continued)

c) Market risk (continued)

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$1,640.

ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At March 31, 2018 and 2017, the Company's long-term debt are at fixed and floating rates and the Company has not entered, into any financial derivatives or other financial instruments to hedge against this risk. The Company's loan agreements bear interest at variable and fixed rates. Interest risk exposure is in relation to variable rates which are lined to LIBOR (3M) and (1Y) rates and a variation of 1% on the interest rate would change comprehensive income by approximately \$206. 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 and equity price risk

The Company is exposed to commodity and equity price risk given as 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 during the period ended March 31, 2018, a 1% change in zinc and lead prices would result in an increase/decrease of approximately \$68 and \$18 respectively in revenues and pre-production sales (note 7).

18. SEGMENTED INFORMATION

The Company is engaged in mining, exploration, and development of mineral properties in Mexico. The Company operates in one industry and has two reportable 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 project.

Information by geographical areas is as follows:

| | Canada | Mexico | Total |
|--|------------------|------------------|------------------|
| Current assets | \$ 54 | \$ 21,010 | \$ 21,064 |
| Non-current assets | | | |
| Mineral interest and development assets | - | 30,755 | 30,755 |
| Property, plant and equipment | - | 19,599 | 19,599 |
| Other assets | - | 383 | 383 |
| Total assets, March 31, 2019 | \$ 54 | \$ 71,747 | \$ 71,801 |
| Current liabilities | \$ 12,269 | \$ 42,765 | \$ 55,034 |
| Non-current liabilities | - | 11,695 | 11,695 |
| Total liabilities, March 31, 2019 | \$ 12,269 | \$ 54,460 | \$ 66,729 |

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18. SEGMENTED INFORMATION (continued)

| | Canada | Mexico | Total |
|---|------------------|------------------|------------------|
| Current assets | \$ 36 | \$ 18,293 | \$ 18,329 |
| Non-current assets | | | |
| Mineral interest and development assets | - | 30,222 | 30,222 |
| Property, plant and equipment | - | 19,157 | 19,157 |
| Total assets, December 31, 2018 | \$ 36 | \$ 67,672 | \$ 67,708 |
| Current liabilities | \$ 9,305 | \$ 41,650 | \$ 50,955 |
| Non-current liabilities | 2,965 | 8,972 | 11,937 |
| Total liabilities, December 31, 2018 | \$ 12,270 | \$ 50,622 | \$ 62,892 |

During the three months ended March 31, 2019 and 2018, the Company sold its commercial and pre-commercial production to one customer accounting for 100% of pre and post - commercial sales. As at March 31, 2019 trade receivables of \$3,179 were receivable entirely from this one customer. Pre and post - commercial sales all were earned within Mexico.

Operating segments are as follows:

| | Telson Mining | Campo Morado | Real de la Bufo | Other | Total March 31, 2019 |
|---|----------------|--------------|-----------------|--------------|----------------------|
| | Canada | Mexico | Mexico | Mexico | |
| Revenue | \$ - | \$10,784 | \$ - | \$ - | \$10,784 |
| Net (loss) income for the period | (\$195) | \$531 | (\$334) | (\$2) | \$681 |

Pre-commercial production revenues are capitalized to mineral interest and development assets up to the total of operating costs and expenses.

19. COMMITMENTS

At March 31, 2019, the Company has the following commitments:

| | Within 1 year | Between 1 and 5 years | More than 5 years | Total March 31, 2019 |
|--|---------------|-----------------------|-------------------|----------------------|
| Lease payments offices | \$ 122 | \$ 342 | \$ - | \$ 464 |
| Lease payments machinery and equipment | 540 | 968 | - | 1,509 |
| Loans | 30,296 | 5,421 | - | 35,717 |
| Provision for site reclamation and closure | - | - | 5,389 | 5,389 |
| | \$ 30,958 | \$ 6,732 | \$ 5,389 | \$ 43,079 |

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20. SUBSEQUENT EVENTS

- On May 22, 2019, the Company issued 10,000 common shares for total net proceeds of \$1 in connection with common shares issued as a result of stock options exercised.
- On April 16, 2019 a total of 1,000,000 stock options expired without being exercised.