TELSON MINING CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2019 and 2018

(Expressed in thousands of Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Telson Mining Corporation

Opinion

We have audited the accompanying consolidated financial statements of Telson Mining Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of loss and comprehensive loss, changes in (deficiency) equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 Company 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that as at December 31, 2019, the Company's current liabilities exceeded its current assets by $56,238 and the Company's total deficit was $89,128. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. 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 IFRS, 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 Company's 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's 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 Company's 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 Company'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 Company 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 Company 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 Alyson Neil.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada   Chartered Professional Accountants

July 30, 2020

Telson Mining Corporation

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	$ 145	$ 116
Marketable securities (note 4)	4,653	5,296
Accounts receivable (note 5)	330	4,487
Prepaid expenses and deposits	416	787
Inventories (note 6)	7,355	7,643
	12,899	18,329
Non-current assets:		
Mineral interest and development assets (note 7)	12,335	30,222
Property, plant and equipment (note 8)	19,787	19,157
Other assets (note 5)	6,213	-
	38,335	49,379
Total assets	**$ 51,234**	**$ 67,708**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 30,561	$ 19,005
Obligation under share purchase agreement (note 7(a))	260	273
Current portion of right of use liabilities (note 11)	1,457	512
Current portion of the long-term debt (note 10)	24,954	22,481
Due to Nyrstar Mining Ltd. short-term (note 7(b) and 9)	11,905	8,685
	69,137	50,956
Non-current liabilities:		
Long-term debt (note 10)	-	2,922
Right of use liabilities (note 11)	470	1,035
Provision for site reclamation and closure (note 12)	5,758	5,015
Due to Nyrstar Mining Ltd. (note 7(b) and 9)	-	2,965
	6,228	11,937
Total liabilities	$ 75,365	$ 62,893
(Deficiency) Equity		
Share capital (note 13)	$ 59,743	$ 59,739
Share subscriptions received in advance (note 13 and 24)	795	-
Equity reserves (note 14)	6,423	6,380
Currency translation reserve	(1,964)	(1,532)
Deficit	(89,128)	(59,772)
Total (deficiency) equity	(24,131)	4,815
Total liabilities and (deficiency) equity	**$ 51,234**	**$ 67,708**

Commitments (note 22)
Contingencies (note 23)
Subsequent events (note 24)

Approved by the Board of Directors on July 30, 2020, and signed on the Company's behalf by:

"Ralph Shearing"
Director

"Rory Godinho"
Director

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

Telson Mining Corporation

Consolidated Statements of Loss and Comprehensive Loss

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

		Years ended December 31, 2019		2018
Revenues				
Gross sales	$	31,026	$	34,755
Treatment and selling costs		(10,425)		(2,318)
		20,601		32,437
Cost of Sales				
Production cost	$	14,910	$	30,265
Royalties		691		1,215
Accretion of provision for site reclamation and closure (note12)		1,589		310
Depletion, depreciation and amortization (note 7 and 8)		1,002		539
		18,192		32,329
Mine operating earnings		2,409		108
General Expenses:				
Consulting fees, wages and benefits (note 17)	$	5,608	$	1,896
Legal and professional fees		291		704
Office, rent and administration		1,534		1,309
Amortization of right-of-use assets (Note 8)		187		–
Regulatory, transfer agent and shareholder information		27		90
Travel, promotion and investor relations		237		841
Share-based compensation (note 14(a) and 17)		45		1,834
Impairment of Campo Morado assets (Note 7)		21,712		–
		29,641		6,674
Other (income) expense:				
Interest income and other income	$	-	$	(670)
Accretion of provision for site reclamation and closure (note 12)		35		190
Change in value of marketable securities (note 4)		(526)		(126)
Interest expenses and other expenses		3,041		1,226
Foreign exchange gain		(441)		(962)
		2,109		(342)
Total loss before income tax	**$**	**(29,341)**	**$**	**(6,224)**
Income tax expense (note18)		15		19
Net loss for the year	**$**	**(29,356)**	**$**	**(6,243)**
Other comprehensive loss				
Items that may be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment		(432)		(193)
Total items that may be reclassified subsequently to profit or (loss)		(432)		(193)
Total comprehensive loss for the year	**$**	**(29,788)**	**$**	**(6,436)**
Weighted average number of common shares outstanding				
Basic and diluted		139,573,841		130,731,161
Loss per share (note 16)				
Basic and diluted	$	(0.21)	$	(0.05)

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

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

	Number of common shares	Share capital	Share Subscriptions received in advance	Equity reserves	Currency translation reserve	Deficit	Total
Balance at December 31, 2017	**124,218,120**	**$ 54,757**	**$ –**	**$ 1,942**	**$ (1,339)**	**$ (53,529)**	**$ 1,831**
Shares issued pursuant private placement	9,124,804	6,833	–	–	–	–	6,833
Fair value of warrants issued in private placement		(2,692)	–	2,692	–	–	–
Share purchase warrants exercised	5,510,294	661	–	–	–	–	661
Stock options exercised	705,934	92	–	–	–	–	92
Fair value of stock options allocated to share capital issued on exercise	–	88	–	(88)	–	–	–
Share-based compensation (note 14)	–	–	–	1,834	–	–	1,834
Loss and comprehensive loss for the year	–	–	–	–	(193)	(6,243)	(6,436)
Balance as at December 31, 2018	**139,559,152**	**$ 59,739**	**$ –**	**$ 6,380**	**$ (1,532)**	**$ (59,772)**	**$ 4,815**
Stock options exercised	20,000	2	–	–	–	–	2
Fair value of stock options allocated to share capital issued on exercise	–	2	–	(2)	–	–	–
Subscriptions received in advance	–		795	–	–	–	795
Share-based compensation (note 14)	–	–	–	45	–	–	45
Loss and comprehensive loss for the year	–	–	–	–	(432)	(29,356)	(29,788)
Balance as at December 31, 2019	**139,579,152**	**$ 59,743**	**$ 795**	**$ 6,423**	**$ (1,964)**	**$ (89,128)**	**$ (24,131)**

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

Telson Mining Corporation

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended December 31, 2019	2018
Cash (used in) provided by:		
Operating activities:		
Loss for the year	$ (29,356)	$ (6,243)
Items not involving cash:		
Depletion and depreciation	1,002	539
Accretion and change of provision for site reclamation and closure	1,624	501
Amortization of right-of-use assets	187	–
Impairment of Campo Morado assets	21,712	–
Share-based compensation (note 15)	45	1,834
Accrued interest on debt net of interest paid	3,041	(98)
Revaluation of marketable securities	(526)	(126)
Income tax expense	15	–
Changes in non-cash working capital:		
Accounts receivable	(2,114)	2,922
Prepaid expenses and deposits	363	(604)
Inventories	222	(5,075)
Accounts payable and accrued liabilities	8,183	8,426
Cash provided by operating activities	4,398	2,076
Investing activities:		
Plant and equipment, net	(2,511)	(7,392)
Mineral interest and development assets additions	(406)	4,605
Redeemed (purchase) of marketable securities	1,138	(5,014)
Cash used in investing activities	(1,779)	(7,801)
Financing activities:		
Share subscriptions received in advance (note 13 and 24)	795	–
Interest paid	(1,013)	6,833
Proceeds in connection to warrants and/or stock options exercised	2	753
Long-term debt	69	6,600
Repayment Nyrstar Mining Ltd	–	(15,933)
Repayment of right of use liabilities	(365)	(382)
Repayment of debt	(900)	(3,271)
Cash used in financing activities	(1,412)	(5,400)
Effect of foreign exchange rate changes on cash	(1,178)	(756)
Increase (decrease) in cash	29	(11,881)
Cash, beginning of the year	116	11,997
Cash, end of the year	**$ 145**	**$ 116**

Supplemental cash flow information (note 15)

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

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 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. 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

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. The Company has a working capital deficit as at December 31, 2019 of $56,238 (2018 - $32,627) and an accumulated deficit of $89,128 (2018 - $59,772).

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"), effective for financial year ended December 31, 2019. IFRS include International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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 July 30, 2020.

(b) Basis of presentation and consolidation

These 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 and their geographical locations:

2. BASIS OF PRESENTATION (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.

(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.

The functional currency of Telson 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.

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in these consolidated financial statements are as follows:

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 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.

2. BASIS OF PRESENTATION (continued)

(d) Critical accounting estimates and judgments (continued)

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. During the year ended December 31, 2019, there were indicators of impairment on the Campo Morado project and an impairment test was performed (note 7).

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.

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.

2. BASIS OF PRESENTATION (continued)

(d) Critical accounting estimates and judgments (continued)

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, 2019, 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.

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.

2. BASIS OF PRESENTATION (continued)

(d) Critical accounting estimates and judgments (continued)

Stock based compensation (continued)

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 compensation expense with a corresponding adjustment to equity reserves.

Income taxes

The provision for income taxes and composition of income tax assets and liabilities require management's judgment. The application of income tax legislation also requires judgment in order to interpret legislation and to apply those findings to the Company's transactions.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash

Cash consists of cash on hand and demand deposits.

(c) Inventories

Inventories of consumable parts and supplies, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 12 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.

(g) 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.

(h) 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Provision for site reclamation and closure (continued)

production are provided for at their estimated net present values and charged against earnings as extraction progresses.

(i) 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 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.

(j) 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Instruments (continued)

Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI 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 less any impairment.

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 net (loss) income. 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 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 net (loss) income, 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 operations and comprehensive income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (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 net (loss) income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

(m) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 warrants issued are subsequently cancelled or expire without being exercised, then the historical fair value of the equity reserve is transferred from reserve to share capital. If the warrants are exercised the related reserves are reclassified from reserves to share capital.

(o) 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.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and warrants on loss per share would be anti-dilutive.

(p) 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-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 costs 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting policy effective January 1, 2019

On January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which replaces IAS 17, Leases ("IAS 17") and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding 12 months unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use asset ("ROU asset") representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17. The Company adopted the standard on January 1, 2019 using the modified retrospective method, and no restatement of prior comparative periods.

The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

i) recognition exemption of short-term leases.
ii) recognition exemption of low-value leases.
iii) application of a single discount rate to a portfolio of leases with similar characteristics on transition.
iv) exclusion of initial direct costs from the measurement of the right-of-use assets upon transition.
v) application of hindsight in determining the applicable lease term at the date of transition, and
vi) election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

As at January 1, 2019	Previously Reported under IAS 17	IFRS 16 Transition Adjustments	As reported under IFRS 16 on January 1, 2019
Property, plant, and equipment (ROU Asset)	$ 2,112	$ 689	$ 2,801
Lease liabilities (ROU Liabilities)	$ (1,547)	$ (689)	$ (2,236)

The ROU asset is depreciated on a straight line basis over the term of the lease (1 to 3 years).

(r) IFRIC 23, Uncertainty over income tax treatments ("IFRIC 23")

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of this interpretation.

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

4. Marketable securities

	Amount
Balance, December 31, 2017	$ -
Purchase of marketable securities	5,180
Redemption of marketable securities	(166)
Realized and unrealized gain	125
Foreign exchange movement	157
Balance, December 31, 2018	**$ 5,296**
Redemption of marketable securities	(1,138)
Realized and unrealized gain	526
Foreign exchange movement	(31)
Balance, December 31, 2019	**$ 4,653**

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, 2019 and are therefore classified as level 1 within the fair value hierarchy with an interest rate of 11% per annum, payable every six months.

5. ACCOUNTS RECEIVABLE

	December 31, 2019	December 31, 2018
Trade receivables	$ 130	$ 700
Value added taxes and other taxes receivable	27	3,490
Other receivables	173	297
Total accounts receivable	**$ 330**	**$ 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.

During the year ended December 31, 2019, the Company reclassed valued added taxes receivable in Mexico to long term based on the expected time to collection. As at December 31, 2019, the Company has $6,213 in valued added taxes receivable included in other assets.

6. INVENTORIES

	December 31, 2019	December 31, 2018
Stock pile ore	$ 2,386	$ 994
Concentrates	-	1,182
Materials and supplies	4,969	5,467
Total inventories	**$ 7,355**	**$ 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 $260 (December 31, 2018 - $273 (US$200,000)) 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.

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$46,540 (paid) and will subsequently make equal recurring yearly payments that will increase by a rate of 5% compounded annually.

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

b) Campo Morado project

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 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. This was accounted for as contingent consideration. Telson shall pay Nyrstar the greater of either:

a) US$20 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 million.

As at December 31, 2019 (as described in note 9), the Company has recorded $11,905 (US$9.1 million), (December 31, 2018 $11,650 (US$8.5 million)) due to Nyrstar Mining Ltd. on the statement of financial position, representing the balance of Campo Morado's loan agreement of US$5.5 million (December 31, 2018 - US$5.5 million); the balance of the contingent consideration of US$2.9 million (December 31, 2018 - US$2.9 million) and interest payable of US$0.7 million (December 31, 2018 – US$0.1 million).

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

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

b) Campo Morado project (continued)

Mineral properties are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assess the carrying values of its mineral properties for indication of impairment each quarter end. During the fourth quarter ended December 31, 2019, management determined that there were indicators of impairment on the Company's Campo Morado project due to the decline in zinc prices, and the Company having suspended operations at the Campo Morado throughout the year from June 20, 2019 to December 31, 2019.

As a result of the impairment indicators noted above, an impairment test was performed that determined that the recoverable amount of the Campo's Morado cash generating unit (CGU), based on a VIU model (level 3 in the fair value hierarchy) of exceeded the carrying value of the CGU, resulting in an asset impairment charge of $21,712 for the year ended December 31, 2019.

Capitalized cash flows are determined with reference to undiscounted risk adjusted cash flows and a discount rate of 20% based on characteristic of the CGU.

The discounted cash flow incorporates management's best estimates of key assumptions which include discount rates, future commodity prices, production based on current estimates of recoverable reserves, consideration of mineral resources and future foreign exchange rates. The cash flows are for periods up to the date the mine is expected to cease production. An after-tax discount rate of 20% was used. The cash flow calculations were based on estimates of future production levels using expected tonnage, grades, recoveries and reserves and factors in historical data. Commodity prices used in the impairment assessment were determined by reference to external market participant sources. The key commodity prices for this assessment are the prices of zinc, lead, silver and gold as follows:

	Zinc (US$ per lb)	Lead (US$ per lb)	Gold (US $ per oz)	Silver (US$ per oz)
2020	0.92	0.82	1,690.00	17.75
2021	1.00	0.87	1,742.74	19.11
2022	1.03	0.90	1,719.26	19.07
2023	1.08	0.92	1,639.21	19.07
2024	1.10	0.91	1,579.47	19.47
2025	1.09	0.91	1,563.33	17.75
2026	1.20	1.01	1,503.20	17.25
2027	1.23	1.02	1,528.00	18.84
2028	1.26	1.03	1,502.00	19.31
2029 onwards	1.31	1.05	1,537.50	18.06

Expected future cash flows used to determine the VIU in the impairment testing are inherently uncertain and could materially change over time. Should management's estimate of the future not reflect actual events, future impairments may be identified. This may have a material effect on the Corporation's consolidated financial statements. Although it is reasonably possible for a change in key assumptions to occur, the possible effects of a change in any single assumption may not fairly reflect the impact on the CGU's fair value as the assumptions are inextricably linked.

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

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets

For the years ended December 31, 2019 and 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	50	-	50
Camp cost, equipment, and field supplies	1,607	-	1,607
Development costs	3,146	-	3,146
Freight and related costs	198	-	198
Fuel and consumables	517	-	517
Supplies, lubricants and other	311	-	311
Project general and office expenses	654	-	654
Geological consulting services	3	-	3
Permitting, environmental and community costs	4	-	4
Salaries and wages	1,477	-	1,477
Travel and accommodation	99	-	99
Depreciation capitalized	861	-	861
Royalties	152	-	152
Interest capitalized, net	1,834	-	1,834
Pre - commercial sales	(4,696)	-	(4,696)
Total additions for the year	6,217	-	6,217
Depletion for the year	-	(642)	(642)
Change of provision for site reclamation and closure	12	(849)	(837)
Impairment	-	(21,712)	(21,712)
Foreign currency movement	(287)	(626)	(913)
Balance as at December 31, 2019	**$12,335**	**$ -**	**$12,335**

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 statement of loss and comprehensive loss.

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

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets (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	1,373	725	2,098
Development costs	1,285	-	1,285
Ore processing	1,718	-	1,718
Freight and related costs	2,149	1,568	3,717
Fuel and consumables	574	647	1,221
Supplies, lubricants and other	-	2,775	2,775
Electricity	-	947	947
Project general and office expenses	290	1,341	1,631
Geological consulting services	-	232	232
Permitting, environmental and community costs	387	(6)	381
Salaries and wages	1,496	2,590	4,086
Travel and accommodation	89	(6)	83
Depreciation capitalized	634	107	741
Royalties	157	359	516
Interest capitalized, net	1,167	163	1,330
Pre - commercial sales	(5,657)	(19,050)	(24,707)
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 movement	405	1,191	1,596
Balance as at December 31, 2018	**$6,393**	**$23,829**	**$30,222**

Included in mineral interest and development assets is $1,834 (December 31, 2018 - $1,330) of capitalized borrowing costs based on a capitalization rate of 100%.

The Company recorded $nil in 2019 and 2018 for Campo Morado and the Tahuehueto property, in expense recoveries in profit or loss relating to pre-commercial sales which exceeded the capitalized costs.

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Right of use assets (Note 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
Adjustment on initial application of IFRS 16	-	-	-	-	689	689
Additions	-	-	842	1,684	-	2,526
Dispositions	-	-	(15)	-	-	(15)
Balance, December 31, 2019	**$ 3,300**	**$ 2,228**	**$ 11,087**	**$ 3,535**	**$ 3,004**	**$ 23,154**
Accumulated amortization						
Balance, December 31, 2017	$ -	$ 36	$ 96	$ -	$ -	$ 132
Amortization for the year	-	47	565	-	240	852
Balance, December 31, 2018	$ -	$ 83	$ 661	$ -	$ 240	$ 984
Amortization for the year	-	170	816	-	422	1,408
Balance, December 31, 2019	**$ -**	**$ 253**	**$ 1,477**	**$ -**	**$ 662**	**$ 2,392**
Foreign currency movement						
Balance, December 31, 2018	$ 53	$ 34	$ 63	$ -	$ 37	$ 187
Balance, December 31, 2019	$ (171)	$ (111)	$ (493)	$ (94)	$ (106)	$ (975)
Net book value						
Balance, December 31, 2018	**$ 3,353**	**$ 2,179**	**$ 9,662**	**$ 1,851**	**$ 2,112**	**$ 19,157**
Balance, December 31, 2019	**$ 3,129**	**$ 1,864**	**$ 9,117**	**$ 3,441**	**$ 2,236**	**$ 19,787**

9. DUE TO NYRSTAR MINING LTD.

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

	Consideration payable due to acquisition	Contingent consideration (Note 7(b))	Total
Balance, December 31, 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	$11,650
Accrued interest	875	-	875
Interest paid	(35)	-	(35)
Foreign exchange adjustment	(391)	(194)	(585)
Balance, December 31, 2019	**$ 8,042**	**$ 3,863**	**$ 11,905**

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

9. DUE TO NYRSTAR MINING LTD. (continued)

	Consideration payable due to acquisition	Contingent consideration (Note 7(b))	Total
Current portion	$ 8,042	$ 3,863	$ 11,905
Long term portion	-	-	-
Balance, December 31, 2019	$ 8,042	$ 3,863	$ 11,905

	Consideration payable due to acquisition	Contingent consideration (Note 7(b))	Total
Current portion	$ 7,593	$ 1,092	$ 8,685
Long term portion	-	2,965	2,965
Balance, December 31, 2018	$ 7,593	$ 4,057	$ 11,650

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$1.0 million to US$500,000, which also effectively extends 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$500,000 as principal repayment plus any accrued interest. (Paid)
b) Telson will make monthly principal repayments of US$500,000 on the 13th day of each month starting on December 13, 2018 and up until October 2019, plus any accrued interest
c) The interest rate did not change and was kept at a fixed rate of 10% per annum and 12% for any amounts overdue
d) Along with the monthly principal repayments mentioned above, Telson will also pay:

- 70% of any monthly free cash flow generated by Telson; plus, any monthly excess cash balance above US$500,000; plus
- 50% of the monthly free cash flow generated by Telson on the Tahuehueto Project once Telson declares commercial production.

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

As a result of the Company not being able to meet is contractual obligations, on October 11, 2019, the Company received a formal notice of default on regards to the Campo Morado Loan Agreement. Subsequent to year end the Company was able to renegotiate with Nyrstar new repayment terms, please refer to note 24.

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 MXN$150 million (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

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

10. SHORT AND LONG-TERM DEBT (continued)

a) Line of Credit (continued)

12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default of any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The Company has not been charged the 30% interest rate by the lender during the year ended December 31, 2019. 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$46 million 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)
Accrued interest	467
Interest paid	(870)
Foreign exchange adjustment	451
Balance, December 31, 2018	$ 3,380
Withdraw of line of credit	69
Accrued interest	471
Foreign exchange adjustment	(28)
Balance, December 31, 2019	**$ 3,892**

	December 31, 2019	**December 31, 2018**
Current portion	$ 3,892	$ 458
Long term portion	-	2,922
Balance	**$ 3,892**	**$ 3,380**

As a result of the Company not being able to meet its contractual obligations, the Company is in default on the LOC balance which is presented within current liabilities.

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 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.

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

10. SHORT AND 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 December 31, 2019, and 2018 therefore the outstanding balance is 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)
Accrued interest	428
Interest paid	(396)
Foreign exchange adjustment	298
Balance, December 31, 2018	$ 4,813
Principal repayments	(215)
Interest paid	(201)
Accrued interest	397
Foreign exchange adjustment	(229)
Balance, December 31, 2019	**$ 4,565**

	December 31, 2019	**December 31, 2018**
Current portion	$ 4,565	$ 4,813
Long term portion	-	-
Balance	**$ 4,565**	**$ 4,813**

During the year 2019, the Company has not been able to meet its contractual obligations with respect to the Loan Agreement Campo. Subsequent to year end the Company was able to renegotiate with Trafigura new repayment terms, please refer to note 24.

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 million for financing working capital, rehabilitation and operation of the Tahuehueto mining project. The Loan Facility is available in three tranches, the first tranche equivalent to US$7.5 million was received upon signing of the agreement. The second tranche equal to US$5 million was received on November 6, 2018. The third tranche for US$2.5 million was available in nine months after the signing of the agreement but shall not pass nine months after the signing of the agreement subject to securing additional funding of US$2.5 million in the form of equity and/or a loan and at least US$2 million of these funds are invested on capital expenditures. The loan bears interest at an effective annual rate equivalent to LIBOR (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'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.

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

10. SHORT AND 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 December 31, 2019 and 2018, 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
Cash advanced first tranche	6,600
Interest paid	(861)
Accrued interest	1,043
Foreign exchange adjustment	967
Balance, December 31, 2018	$ 17,210
Interest paid	(777)
Principal repayment	(685)
Accrued interest	1,363
Foreign exchange adjustment	(614)
Balance, December 31, 2019	**$ 16,497**

	December 31, 2019	December 31, 2018
Current portion	$ 16,497	$ 17,210
Long term portion	-	-
Balance	**$ 16,497**	**$ 17,210**

During the year 2019, the Company has not been able to meet its contractual obligations with respect to the Loan Agreement Campo. Subsequent to year end the Company was able to renegotiate with Trafigura new repayment terms, please refer to note 24.

11. RIGHT OF USE ASSETS AND RIGHT OF USE LIABILITIES

In transitioning to IFRS 16, the Company analyzed its contracts to identify whether they are or contain a lease arrangement. This analysis identified contracts containing leases that have an equivalent increase to both the Company's ROU assets and ROU liabilities.

The ROU liabilities were discounted using an incremental borrowing rate as at January 1, 2019 of 8.0% to 15% per annum.

The continuity of right of use liabilities for the year ended December 31, 2019 is as follows:

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

11. RIGHT OF USE ASSETS AND RIGHT OF USE LIABILITIES (continued)

	Amount
Balance lease liabilities, January 1, 2019	$ 1,547
Lease liabilities recognized as of January 1, 2019	689
Lease payments	(365)
Interest expense	177
Foreign exchange adjustment	(121)
Balance lease liabilities, December 31, 2019	**$ 1,927**

	December 31, 2019	December 31, 2018
Current portion	$ 1,457	$ 512
Long term portion	470	1,035
Balance	**$ 1,927**	**$ 1,547**

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

	Amount
2020	$ 1,153
2021	468
2022	315
2023	59
Total minimum lease payments	1,995
Present value of minimum lease payments	(68)
Lease obligations, December 31, 2019	**$ 1,927**

The continuity of right of use assets for the year ended December 31, 2019 is as follows:

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

11. RIGHT OF USE ASSETS AND RIGHT OF USE LIABILITIES (continued)

	Machinery & equipment	Offices	Vehicles	Right of use assets (Note 8)
Cost				
Balance, January 1, 2019	$ 2,315	$ -	$ -	$ 2,315
Adjustment on initial application of IFRS 16	-	536	153	689
Balance, December 31, 2019	**$ 2,315**	**$ 536**	**$ 153**	**$ 3,004**
Accumulated amortization				
Balance, January 1, 2019	$ 240	$ -	$ -	$ 240
Amortization for the year	234	142	46	422
Balance, December 31, 2019	**$ 474**	**$ 142**	**$ 46**	**$ 662**
Foreign currency movement				
Balance, January 1, 2019	$ 37	$ -	$ -	$ 37
Balance, December 31, 2019	$ (61)	$ (35)	$ (10)	$ (106)
Net book value				
Balance, January 1, 2019	**$ 2,112**	**$ -**	**$ -**	**$ 2,112**
Balance, December 31, 2019	**$ 1,780**	**$ 359**	**$ 97**	**$ 2,236**

During the year ended December 31, 2019 the Company recorded $52 in relation to short term and low value leases.

12. 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 Project

A total present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at $448 (December 31, 2018 – $404).

A provision for site reclamation and closure has been recognized in respect of the Tahuehueto project. The key assumptions on which this estimate was based on are:

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

12. PROVISION FOR SITE RECLAMATION AND CLOSURE (continued)

a) Tahuehueto Project (continued)

- Undiscounted cash flow for site reclamation of $594 (MXP $8.6M), 2018 - $599 (MXP$8.6M)
- Expected timing of future cash flows is based on estimated mine life of 9 years with reclamation occurring equally in years 8 and 9 (2018 - years 9 and 10);
- Annual inflation rate 3.9% (2018 – 4.3%); and
- Risk free interest rate 8.50% (2018 – 8.68%)

b) Campo Morado Project

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 $9,755 (MXP $141.6M), 2018 – $9,833 (MXP$141.6M);
- Expected timing of future cash flows is based on estimated mine life of 12 years with reclamation occurring equally in years 13 to 18 (2018 – years 17 to 22);
- Annual inflation rate 3.9% (2018 – 4.3%); and
- Risk free interest rate 8.50% (2018 – 8.68%).

The present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at $5,310 (December 31, 2018 – $4,611).

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

	December 31, 2019	December 31, 2018
Balance, beginning of the year	$ 5,015	$ 5,947
Change in estimate	(837)	(1,388)
Accretion expense	1,624	500
Foreign exchange movement	(44)	(44)
Balance, end of the year	**$ 5,758**	**$ 5,015**

13. SHARE CAPITAL

Common share transactions:

Year ended December 31, 2019

i. During the year ended December 31, 2019, the Company issued 20,000 common shares for gross proceeds of $2 in connection with stock options exercised. The fair value of the options exercised was $2 and was transferred from the equity reserves and recorded against share capital.

ii During the year ended December 31, 2019, the Company received gross proceeds of $795 in connection with a non-brokered private placement that closed on May 27, 2020 (note 24).

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

13. SHARE CAPITAL (continued)

Year ended December 31, 2018

ii. During the year ended December 31, 2018, the Company issued 5,510,294 common shares for gross proceeds of $661 in connection with the exercise of warrants.

iii. During the year ended December 31, 2018, the Company issued 705,934 common shares for gross proceeds of $92 in connection with stock options exercised. The fair value of the options exercised was $88 and was transferred from the equity reserves and recorded against share capital.

iv. On October 10, 2018, the Company closed its non-brokered private placement financing consisting of 9,124,804 Units of the Company at a price of $0.75 per Unit for net proceeds of $6,833. Each "Unit" consists of one common share and one half of one transferable common share purchase warrant. Each whole purchase warrant entitles the holder thereof to acquire one common share of the Company at a price of $1.25 for a period of two years. All common shares issued in connection with the private placement are subject to a four month plus one day hold period under applicable Canadian securities laws. No finder's fees were paid in connection with the private placement. The residual value of the warrants of $2,692 was reallocated from share capital to equity reserves.

14. EQUITY RESERVES

a) Share-based compensation

The Company has a stock option plan (the "Plan") providing for the issuance of stock options to directors, officers, employees and other service providers enabling them to acquire up to 10% of the issued and outstanding common stocks of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the Board of Directors. Stock options can be granted for a maximum term of 10 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to 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
Cancelled	(100,000)	0.71
Exercised	(705,934)	0.13
Outstanding, December 31, 2018	10,637,166	0.42
Cancelled	(1,050,000)	0.80
Exercised	(20,000)	0.13
Outstanding, December 31, 2019	**9,567,166**	**$ 0.39**

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

14. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

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

	Outstanding			Exercisable
Expiry date	**Number of options**	**Exercise price**	**Remaining contractual life (years)**	**Number of options**
March 22, 2021	5,437,166	$0.13	1.22	5,437,166
November 11, 2022	3,680,000	$0.71	2.87	3,680,000
April 16, 2023	400,000	$0.77	3.29	400,000
April 23, 2023	50,000	$0.72	3.31	50,000
	9,567,166			**9,567,166**

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 year ended December 31, 2019 an amount of $45 (2018 - $1,834) was expensed as share-based compensation. The portion of share-based compensation recorded is based on the vesting schedule of the options.

During the year ended December 31, 2019, the Company granted a total of nil (2018 – 1,450,000) stock options with a weighted average grant-date fair value of $nil (2018 - $0.42) per option calculated as of the date of grant using the Black-Scholes option model.

The fair value of the stock options granted during the year ended December 31, 2019 and 2018, were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	2019	**2018**
Risk-free interest rate	N/A	2.09%
Expected dividend yield	Nil	Nil
Stock price volatility	N/A	139%
Expected life (in years)	N/A	2.24

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

b) Share purchase warrants

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

	Warrants outstanding	**Exercise price**
Outstanding, December 31, 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, 2019 and 2018	**4,562,401**	**$ 1.25**

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

14. EQUITY RESERVES (continued)

b) Share purchase warrants (continued)

		Outstanding	
Expiry date	Granted	Exercise price	Remaining contractual life (years)
October 9, 2020	4,562,401	$ 1.25	0.78

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31, 2019	Year ended December 31, 2018
Accounts payable and accrued liabilities included in mineral interest and development assets	$ 3,884	$ 768
Interest of long-term debt capitalized as mineral interest and development assets	1,834	1,330
Depreciation capitalized as mineral interest and development assets	626	742
Right of use of assets amortization capitalized	235	-
Change in estimate for site reclamation and closure	(837)	(1,388)
Fair value of stock options exercised	2	88

	Year ended December 31, 2019	Year ended December 31, 2018
Interest paid (note 9 and 10)	$ 1,013	$ 2,574
Income taxes paid	$ -	$ -

16. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year.

	Year ended December 31, 2019	Year ended December 31, 2018
Loss attributable to common shareholders	$ (29,356)	$ (6,243)
Weighted average number of shares	139,573,841	130,731,161
Basic and diluted loss per share	$ (0.21)	$ (0.05)

The Company incurred a net loss for the years ended December 31, 2019 and 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.

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

17. 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:

	Year ended December 31, 2019	**Year ended December 31, 2018**
Short-term benefits	$ 951	$ 839
Other benefits	89	26
Share-based compensation	40	992
	$ 1,080	$ 1,857

b) Related party balances:

As at December 31, 2019, directors and officers or their related companies were owed $4,503 (December 31, 2018 – $3,506) 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 December 31, 2019, directors and officers or their related companies owed the Company $15 (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 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,:

	December 31, 2019	**December 31, 2018**
Current portion of the debt	$ 3,892	$ 458
Long term portion of the debt	-	2,922
Balance	**$ 3,892**	**$ 3,380**

Since November 6, 2018, the Company incurred interest in the amount of $538 of which $nil was paid.

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

18. INCOME TAXES

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

	Year ended December 31, 2019	Year ended December 31, 2018
Income (loss) before income taxes	$ (29,341)	$ (6,224)
	27.0%	27.0%
Expected income tax expense (recovery)	(7,922)	(1,680)
Increase (decrease) in income tax expense resulting from:		
Change in statutory, foreign tax, foreign exchange rates, and other	(1,445)	1,816
Permanent differences	3,121	(2,330)
Share issuance costs	(14)	(14)
Share-based compensation	12	495
Adjustment to prior years' provision versus statutory tax returns and inflationary adjustments	(9,387)	5,441
Change in unrecognized deductible temporary differences	15,650	(3,709)
Income tax expense (recovery)	$ 15	$ 19

Current income tax expense	$ 15	$ 19
Deferred income tax expense (recovery)	$ -	$ -

Income tax expense (recovery) differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings (loss) before income taxes.

The British Columbia (BC) Government increased the general corporate income tax rate to 12% effective January 1, 2018 and onwards. The relevant deferred tax balances have been re-measured to reflect the combined Federal and Provincial (BC) general corporate income tax rate of 27%.

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

	December 31, 2019	December 31, 2018	Expiry date range
Mineral interest and equipment	$ 132,874	$ 93,664	No expiry date
Intangible assets	4,130	8,380	No expiry date
Share issue costs	16	67	No expiry date
Allowable capital losses	2,250	1,125	No expiry date
Non-capital losses available for future period	184,852	172,778	
Canada	17,725	15,953	2026 to 2039
Mexico	167,127	156,825	2020 to 2029

19. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the 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 right of use liabilities approximated their carrying value as their interest rates are comparable to market interest rates.

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

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

a) Credit risk

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

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. See Note 1 for further discussion.

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

c) Market risk

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

i) Foreign currency risk

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

	Amounts US Dollars	**Amounts Mexican Peso**
Financial assets denominated in foreign currencies	$ 171	$ 4,903
Financial liabilities denominated in foreign currencies	(35,237)	(38,858)
Net exposure	**$ (35,066)**	**$ (33,955)**

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by $3,395.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by $3,506.

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, 2019 and 2018, 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 loss by approximately $160,000. 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 at the year ended December 31, 2019, a 1% change in zinc and lead prices would result in an increase/decrease of approximately $10 and $3 respectively in revenues and pre-production sales (note 7).

20. CAPITAL RISK MANAGEMENT

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

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

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

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

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

The Company expects its current capital resources will be sufficient to carry its current operations. Nevertheless, any additional development and exploration is subject to acquiring new financing through loans, issue new shares through equity offerings or sell assets. The Company is subject to certain capital requirements in connection with its long-term debt (note 10).

There has been no change to the Company's approach to capital management during the years ended December 31, 2019 and 2018.

21. 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 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	$ 62	$ 12,837	$ 12,899
Non-current assets			
Mineral interest and development assets	-	12,335	12,335
Property, plant, and equipment	-	19,787	19,787
Other assets	-	6,213	6,213
Total assets, December 31, 2019	**$ 62**	**$ 51,172**	**$ 51,234**
Current liabilities	$ 12,982	$ 56,155	$ 69,137
Non-current liabilities	-	6,228	6,228
Total liabilities, December 31, 2019	**$ 12,982**	**$ 62,383**	**$ 75,365**

21. SEGMENTED INFORMATION (continue)

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

	Canada	Mexico	Total
Current assets	$ 37	$ 18,292	$ 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	**$ 37**	**$ 67,671**	**$ 67,708**
Current liabilities	$ 9,305	$ 41,651	$ 50,956
Non-current liabilities	2,966	8,971	11,937
Total liabilities, December 31, 2018	**$ 12,271**	**$ 50,622**	**$ 62,893**

During the year ended December 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 December 31, 2019 trade receivables of $130 were receivable entirely from this one customer. Pre and post - commercial sales all were earned within Mexico.

Operating segments are as follows:

December 31, 2019	**Campo Morado**	**Real de la Bufa**	**Other**	**Telson Mining**	**Total December 31, 2019**
	Mexico	**Mexico**	**Mexico**	**Canada**	
Revenue, net	$20,601	$ -	$ -	$ -	$20,601
Production costs and royalties	(15,601)	-	-	-	(15,601)
Accretion of provision for site reclamation and closure	(1,589)	-	-	-	(1,589)
Depletion and amortization	(1,002)	-	-	-	(1,002)
Mine operating earnings	2,409	-	-	-	2,409
General expenses	(26,849)	(1,218)	(189)	(1,385)	(29,641)
Other income (expenses)	(1,919)	(137)	(250)	197	(2,109)
Income tax	-	-	(15)	-	(15)
Net loss for the year	**$ (26,359)**	**$ (1,355)**	**$ (454)**	**$ (1,188)**	**$ (29,356)**

December 31, 2018	**Campo Morado**	**Real de la Bufa**	**Other**	**Telson Mining**	**Total December 31, 2018**
	Mexico	**Mexico**	**Mexico**	**Canada**	
Revenue	$ 32,437	$ -	$ -	$ -	$ 32,437
Production costs and royalties	(31,480)	-	-	-	(31,480)
Accretion of provision for site reclamation and closure	(310)	-	-	-	(310)
Depletion and amortization	(539)	-	-	-	(539)
Mine operating earnings	108	-	-	-	108
General expenses	(1,011)	(1,450)	(198)	(4,015)	(6,674)
Other income (expenses)	83	246	7	6	342
Income tax	-	-	(19)	-	(19)
Net loss for the year	**$ (820)**	**$ (1,204)**	**$ (210)**	**$ (4,009)**	**$ (6,243)**

22. COMMITMENTS

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

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

	Within 1 year	Between 1 and 5 years	More than 5 years	Total December 31, 2019
Lease payments offices	$ 174	$ 302	$ -	$ 476
Lease payments machinery and equipment	928	470	-	1,398
Vehicles	51	70		121
Loans	36,934	-	-	36,934
Provision for site reclamation and closure	–	–	5,758	5,758
	$ 38,087	**$ 842**	**$ 5,758**	**$ 44,687**

Other commitments not included in the table above are as follows:

a) VPP – Variable Purchase Price

As part of the Campo Morado Acquisiton, 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:

i. US$20 per tonne of zinc sold if the zinc price received is over US$2,100 per tonne; or

ii. 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 million.

In regards, the variable purchase price, the Company paid $nil in 2019 ($1,331 - 2018)(USD$1,026,000).

b) Royalties

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”)

c) Off-take agreements

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the zinc and lead concentrate produced by the Campo Morado Mine up to December 2021.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the zinc and lead concentrate produced by Tahuehueto project up to December 2022.

23. 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.

Despacho Gefent y Asociasodos, S.C. Vs Minas de Campo Morado, S.A. de C.V. (formerly Nyrstar Campo Morado, S. A. de C. V.)

Despacho Gafent y Asociasodos, S.C. (Gefent) in June 2014 commenced a legal procedure against the Company's subsidiary, Minas de Campo Morado, S. A. de C. V. ("MCM") in relation to a breach of a service agreement. Gefent is suing MCM for approximately $1,960 (MXP$28.5 million) in fees not paid for services rendered. The Company and MCM filed a defense and counterclaim against one of the principals (the "Principal") of Gefent, on the basis that at the time the service agreement was executed (prior to the Company's purchase of MCM), the Principal executed on behalf of MCM without disclosing that he was a principal of Gefent and therefore was in a conflict of interest. Since MCM claims the service agreement was signed by individuals with financial interest in Gefent and without disclosure of the potential conflict of interest, MCM is trying to invalidate the service agreement. MCM has no assurance on the outcome of these proceedings and therefore the Company has provisioned the full amount of the claim which is recorded in accounts payable and accrued liabilities.

Servicio de Administracion Tributaria Vs 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, Campo Morado, S. A. de C. V. (CM), 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 $1,997 (MXN$29 million) and possible reduction of accumulated losses for $10,852 (MXP$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 $1,432 (MXN$21 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 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 MCM and PSA claiming Reynaldo was dismissed without cause. Reynaldo is suing the Company 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.

23. CONTINGENCIES

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

In March 2020, the Company terminated its relationship with Size Solutions S.A. de C.V. ("Size"), a payroll service provider for Campo Morado, 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 MXN$ 85.8 million. The Company has accrued $MXN 62.3 million in accounts payable and accrued liabilities as at December 31, 2019 and is disputing the difference. The Company believes Size's demand is without merit.

24. SUBSEQUENT EVENTS

a) On April 27, 2020, the Mexican Ministry of Health proclaimed a national health emergency with an immediate suspension order of all "non-essential" public and private sector business, including mining in order to mitigate the spread and transmission of the COVID-19 virus. As a result, the Company suspended operations at Campo Morado mine and implemented care and maintenance activities during the suspension.

   On June 4, 2020, restarted mining operations as the Mexican Government deemed mining to be an essential industry, resulting in lifting off the suspension order to curtail mining operations because of the COVID-19 pandemic.

b) On March 26, 2020, the Company entered into a letter agreement (the "Letter Agreement") with Trafigura which defines the terms under which Trafigura will provide Telson a waiver to certain terms of the Loan Agreements entered into between the companies.

   Under the terms of the Letter Agreement, Telson acknowledges that it is in default of its loan obligations under two loan agreements entered into between Trafigura and Telson as follows.

   1) Loan facility Campo (note 10(b)) and,

   2) Loan facility Real (note 10(c)).

   Material Terms of the Letter Agreement are as follows:

   1) Trafigura has provided their approval and consent to allow Telson to avoid a cause for default by granting Telson a waiver, forgoing defaults under the Loan Agreements, and deferring interests and principal payments until June 30, 2021.

   2) This waiver also eliminates the Loan Agreements restriction on Telson for disposition of assets, if necessary, to generate cash to allow Telson to repay its loan obligations to Trafigura.

   3) Trafigura agrees to restructure the entire loan debt obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm the projects financial viability, if

      a. the Tahuehueto Project is ramped up or,

      b. Telson successfully raises funding in sufficient amounts to fully fund the final construction and ramp up of the Tahuehueto Project, which funding amount and requirements for effective ramp up, to be independently verified by a mutually acceptable independent engineering consultant.

24. SUBSEQUENT EVENTS (continued)

c. And subject to the fulfillment of the milestones outlined in section 7 below.

4) Telson agrees to undertake to conduct a process to market assets for potential sale (the "Transaction") in amounts to repay loan obligations to Trafigura.

5) Telson will transfer all its assets in the Campo Morado Project and its assets in the Tahuehueto Project to a trustee in order to secure the full repayment of the Loan Agreements. Should Telson repay the total debt due to Trafigura under the Loan Agreements, the Trust will be terminated, and all assets held within the Trust will return to Telson. As at the date of these financial statements, the trust has yet to be formed.

6) Telson undertakes to make every effort to,

a. Raise funding to repay the full amount of the Loan Agreements and at the same time to,

b. Progress the Transaction and should Telson not obtain sufficient funding to repay the Loan Agreement debt before June 30, 2021, Telson intends to perform the sale of one or more of its project assets, to generate sufficient funds to repay the Loan Agreements.

7) Milestones - Telson will take all reasonable commercial efforts to advance the Transaction, adhering to the time schedule outlined below and will provide Trafigura evidence that this process is advancing to the following schedule.

a. Before December 31, 2020, Telson shall have received at least three (3) letters of intent from potential buyers regarding the Transaction.

b. Before March 31, 2021, Telson shall have received at least three (3) binding offers from potential buyers regarding the Transaction.

c. It is recognized that a breach of the Letter Agreement shall not have occurred should Telson fail to receive the letters of intent and binding offers as contemplated in the above sections as a result of market conditions which fail to generate bona fide interest in the purchase of the assets so long as Telson has in good faith made all commercially reasonable efforts to advance the Transaction and can provide evidence of such efforts.

d. No later than June 30, 2021, the corresponding sales and purchase agreement shall be executed between Telson and the relevant purchaser if Telson has not either, repaid its loan debt obligations or satisfied the conditions outlined within section 3 above.

8) In partial consideration of the waiver granted by Trafigura, Telson shall issue to Trafigura 12,000,000 warrants exercisable into one common share for each warrant at an exercise price of $0.175 per share over a term of 36 months. If any of the Campo Morado Project or the Tahuehueto Project are sold and Telson repays its total debt under the Loan Agreements within the timeline proposed above the warrants will expire and thereby be canceled.

c) On May 27, 2020, the Company closed a non-brokered private placement (the "Private Placement") which consisted of 21,424,432 units (the "Units") at a price of $0.10 per Unit for gross proceeds of $2,142. 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. All securities issued under the Private Placement are subject to a hold period expiring four months and one day after the closing date. 361,239 units were issued as finder's fee. During the year ended December 31, 2019, the Company received $795 in relation to this private placement.

24. SUBSEQUENT EVENTS (continued)

Estratégica, a related party, acquired 1,412,400 Units from the Private Placement.

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

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

- Loan facility amount - US$ 12 Million
- Repayment term - 3 years with a one-year grace period on principal
- Repayable in 24 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum
- 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
- Telson to issue, subject to TSX Venture Exchange approval, 15 Million bonus warrants at an exercise price of $0.09/share for a period of 48 months. The bonus warrants are to be issued in lieu of a work fee but subject to cancelation if the loan facility does not close
- The loan facility is subject to final due diligence of Accendo

e) On May 20, 2020, the Company entered into a letter agreement (the "Nyrstar Letter Agreement") with Nyrstar in which Nyrstar has provided Telson a conditional waiver to Telson's default status of the Campo Morado Loan Agreement (note 9).

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

The Nyrstar Letter Agreement further provides,

- Nyrstar's conditional approval and consent to allow Telson to avoid a cause for default by granting Telson a waiver, forgoing defaults under the Nyrstar Loan Agreement, and deferring interests and principal payments until June 30, 2021.

- This waiver eliminates the Nyrstar Loan Agreements restriction on Telson for disposition of assets, if necessary, to generate cash to allow Telson to repay its loan obligations to Nyrstar.

- Nyrstar agrees to restructure Telson's entire loan debt obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm either of Telson's projects financial viability if,

24. SUBSEQUENT EVENTS (continued)

a. the Tahuehueto Project is ramped up or,

b. the Campo Morado project successfully operates and shows monthly repayment of due obligations to Nyrstar and Trafigura on at least 6 consecutive months in amounts not less to an aggregate of $300,000 per month, on a pro rata basis based on outstanding amounts due under the Loan Agreement with Nyrstar and the Campo Morado Loan Agreement with Trafigura.

c. If Telson successfully raises funding in a sufficient amount to fully fund the final construction and ramp up of the Tahuehueto Project, which funding amount and requirements for effective ramp up to be independently verified by a mutually acceptable independent engineering consultant.

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

f) On July 15, 2020, the company closed a non-brokered private placement with the Company issuing 13,996,145 units (the "Units") at a price of $0.10 per Unit for gross proceeds of $1,399,615. 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 on November 10, 2020.