



## TELSON MINING CORPORATION

### Management's Discussion and Analysis

YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of Canadian dollars)

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Telson Mining Corporation (formerly Telson Resources Inc), ("Telson" or the "Company") has prepared this Management's Discussion and Analysis ("MD&A") as of December 31, 2019 and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the years ended December 31, 2019. Unless otherwise stated, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") or ("GAAP") and all dollar amounts herein are presented in thousands of Canadian dollars unless stated otherwise. References to \$ means thousands of Canadian dollars, US\$ are to thousands of United States dollars and MXN\$ to thousands of Mexican pesos.

All information contained in this MD&A is current and has been approved by the Board of Directors of the Company as of Jul 30, 2020 unless otherwise stated. Additional information on the Company, is also available under the Company's profile at [www.sedar.com](http://www.sedar.com) and on the Company's website: [www.telsonmining.com](http://www.telsonmining.com).

The information in this MD&A contains "forward-looking information" that are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements.

#### Cautionary Note Regarding Forward-looking Information

Certain statements included in this MD&A may contain forward-looking statements that relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. These statements include, but are not limited to, statements concerning the future financial and operating performance of the Company and its search for resource properties; the future prices of natural resource based commodities; the estimation of reserves and resources; the realization of reserve estimates; timing of technical reports, scoping studies, and preliminary economic assessments; expected content of scoping studies and preliminary economic assessments; anticipated working-capital requirements; capital expenditures; costs and timing of future exploration; requirements for additional capital; government regulation of resource operations; environmental risks; title disputes or claims; and limitation of insurance coverage.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, general business and economic uncertainties; exploration and resource extraction risks; uncertainties relating to surface rights; the actual results of current exploration activities; the outcome of negotiations; conclusions of economic evaluations and studies; future prices of natural resource based commodities; increased competition in the natural resource industry for properties, equipment and qualified personnel; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; the risk of arbitrary changes in law; title risks; and the risk of loss of key personnel.

The forward-looking statements contained herein are based on a number of assumptions that the Company believes are reasonable but may prove to be incorrect. These assumptions include, but are not limited to, assumptions that there is no material deterioration in general business and economic conditions; that there is no

unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for natural resource based commodities develops as expected; that the Company receives regulatory approvals for its exploration projects on a timely basis; that the Company is able to obtain financing for its projects on reasonable terms; that the Company's reserve estimates are within reasonable bounds of accuracy and that the geological, operational and price assumptions upon which they are based are reasonable; and that the Company is able to hire the personnel needed to carry out its business plan.

The foregoing lists of factors and assumptions are not exhaustive. The reader should also consider carefully the matters discussed under the heading "Risks Factors and Uncertainties" elsewhere in this MD&A. Forward-looking statements contained herein are made as of the date hereof (or as of the date of a document incorporated herein by reference, as applicable). No obligation is undertaken to update publicly or otherwise revise any forward-looking statements or the foregoing lists of factors and assumptions, whether as a result of new information, future events or results or otherwise, except as required by law. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

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## 1.- Company Profile and Business Overview

Telson Mining Corporation (“Telson” or the “Company”) is a Canadian mining company listed on TSX Venture Exchange under the symbol “TSN” and it is focused on the operation and development of mineral resource properties in North America. The Company owns and operates Campo Morado Mine (“Campo Morado”) in Guerrero state, Mexico and is also advancing its Tahuehueto Project towards production, which is in Durango state, Mexico.

The Company was incorporated on April 11, 1986, under the laws of British Columbia, Canada under the name of Samarkand Resources Corp., and most recently, on February 21, 2018, the Company changed its name to Telson Mining Corporation.

The location of the Company’s mining properties are as follows:



### **Campo Morado Mine**

Telson owns 100% of the Campo Morado Mine which includes an underground multi-metal mine with infrastructure, installations and equipment capable of processing 2,500 tonnes of ore per day, as well as six mining concessions occupying approximately 12,045 hectares located in the state of Guerrero, Mexico.

After the acquisition of the Campo Morado Mine, the Company restarted mining operations on a pre-production basis starting in October 2017. Effective May 15, 2018 the Company completed commissioning of Campo Morado mine and declared commercial production working continuously until June 2019.

On August 14, 2019, the Company curtailed operations at Campo Morado mine placing the mining project into care and maintenance as a result of declining zinc prices and community issues. However, with increasing zinc prices and significant improvements in community relations the Company made the decision to bring the mine project out of care and maintenance and restarted operations during the last week of January 2020. Nevertheless, on March 31, 2020 the Mexican Government proclaimed a national health emergency with an immediate suspension order of all "non-essential" public and private sector businesses, including mining, to mitigate the spread and transmission of the COVID-19 virus. As a result, Campo Morado temporarily suspended operations again during April and May of 2020. Starting in June 2020, the Mexican Government deemed the mining industry to be an essential industry, resulting in lifting off the temporary country wide mining industry shut down, Campo Morado re-commenced mining activities on June 3, 2020 following safety and health protocols approved by the Mexican Government.

### **Tahuehueto Mining Project**

The Tahuehueto Mining Project includes 28 mining concessions that total 7,492 hectares located in the northwest portion of the state of Durango Mexico, about 250 km northwest of Durango city, and 160 km northeast of the city of Culiacan, Sinaloa.

The most recent technical report published for Tahuehueto, a prefeasibility study and reserve/resource calculation, shows the project contains probable reserves of 3.3 million tonnes of grading 3.4 g/tonne gold, 41.8 g/tonne silver, 0.31% copper, 1.1% lead and 2.0% zinc. Furthermore, compliant resources inclusive with reserves, were

calculated at Measured and Indicated (M&I) categories to 6.1 million tonnes grading 2.48 g/tonne gold, 42.8 g/tonne silver, 0.31% copper, 1.2% lead and 2.15% zinc plus Inferred Resources of 3.5 million tonnes grading 1.3 g/tonne gold, 37.5 g/tonne silver, 0.27% copper, 1.34% lead and 2.44% zinc.

Effective January 1, 2017 management determined that technical feasibility and commercial viability were established through the positive results associated with the pre-feasibility study completed for this project, therefore, the asset was moved into a development stage asset under IFRS. However, funding constraints have required the Company to temporarily curtail development until further notice or additional funding is available. Most recently, the company has negotiated a conditional loan financing, as announced in its press release dated June 16, 2020, which is expected to close in the next few months and that will be used to complete the construction of the Tahuehueto mining project during the first half of 2021.

## **2.- Operating and Financial Performance Highlights and key business developments**

### **2019 Annual and Fourth Quarter**

- During the year 2019, the Company produced and sold 16,807 and 3,803 tonnes of zinc and lead concentrate respectively for proceeds of \$31,026 (US\$21,799). During Q4-2019, there were no ore mined nor processed as the mining project was under care and maintenance
- Mine operating profit of \$2,409 for year ended Dec 31, 2019 (mine operating profit of \$90 during Q4-2019).
- Operating cash flows of \$4,398 for year ended Dec 31, 2019 (\$1,004 during Q4-2019)

### **Board Changes**

On December 27, 2019, Mr. Arturo Bonillas resigned from the Company's Board of Directors for personal reasons.

On February 18, 2020, Mr. Jose Antonio Berlanga resigned his positions as Chief Executive Officer and as a member of the Board of Directors of the Company for personal reasons. Subsequently, Mr. Ralph Shearing, President of the Company step in as interim Chief Executive Officer of the Company.

## **3.- Overall Operations Performance**

### **2019 Annual and Quarterly Operational Performance Results**

The following table and subsequent discussion provide a summary of the operating performance of the Company for the three months ended and years ended December 31, 2019 and 2018, unless otherwise noted.

	Note	Years ended December 31,		Note	Three months ended December 31,	
		2019	2018		2019	2018
<b>Operational</b>	<b>1, 2</b>			<b>1, 2</b>		
Ore Processed		253,876	585,602		–	146,137
Zn concentrate produced (ton)		15,864	39,364		–	9,639
Average realized zinc price per tonne	\$	2,580	\$ 2,808	\$	–	\$ 2,475
Zn grade		46%	45%		–	45.95
Zn recovery		70%	71%		–	69%
Pb concentrate produced (ton)		3,709	7,312		–	2,179
Average realized lead price per tonne	\$	1,983	\$ 2,178	\$	–	\$ 2,086
Pb grade		24%	26%		–	21.93
Pb recovery		33%	30%		–	31%
<b>Cost Analysis</b>	<b>1, 2</b>			<b>1, 2</b>		
C1 Cash cost per lbs	\$	1.03	\$ 0.89	\$	–	\$ 0.66
All-in Sustaining Cost per lbs	\$	1.62	\$ 1.07	\$	–	\$ 0.72
<b>Financial</b>	<b>1,2</b>			<b>1,2</b>		
Gross revenues	\$	31,026	\$ 34,755	\$	1,580	\$ 13,519
Mine operating profit	\$	2,409	\$ 108	\$	90	\$ 2,289
Loss for the year	\$	(29,356)	\$ (6,243)	\$	(23,176)	\$ (2,785)
Cash	\$	145	\$ 116	\$	145	\$ 116
Working capital deficiency	\$	(56,238)	\$ (32,627)	\$	(56,239)	\$ (32,627)

Notes:

- (1) Campo Morado Mine commenced commercial production effective May 15, 2018. As such, any financial information starting on this date is recognized in the Company's condensed interim consolidated statement of loss and other comprehensive loss. Financial operating results prior to that date were capitalized to Mineral Interest and Development Assets within non-current assets.
- (2) On August 14, 2019, the Company curtailed operations at Campo Morado mine placing the mining project into care and maintenance.

## Operational Performance Results

### a) Production and sales

#### Campo Morado

##### Mine operations during the fourth quarter of 2019

- By August 14, 2019, the Company placed Campo Morado under care and maintenance resulting in no production during the fourth quarter of 2019
- During the fourth quarter Campo Morado sold concentrates previously produced for a total of 1,196 tonnes of zinc concentrates with an average grade of 45.04% zinc, 0.92 g/t gold, 415 g/t silver for total sales of US\$708. It also sold 149 tonnes of lead concentrate grading 23% lead, 4.06 g/t gold, 627 g/t silver for total sales of US\$79

##### Mine operations for the year ended 2019

- Produced 15,864 tonnes of zinc concentrate with average grades of 45.99% zinc, 1.37 g/t gold, 502 g/t silver and sold 18,732 tonnes of zinc concentrate with average grade of 45.95% zinc, 1.30 g/t gold, 477.45 g/t silver for total sales of US\$13,580
- Produced 3,709 tonnes of lead concentrate grading 24.54% lead, 5.60 g/t gold, 668 g/t silver and sold 4,094 tonnes of lead concentrate with average grade of 23.91% lead, 4.73 g/t gold, 648 g/t silver for total sales of US\$2,295
- Total 2019 payable metals produced at Campo Morado were approximately 15,864 tonnes zinc, 3,709 tonnes of lead, 42.51 kg of gold, and 10,438 Kg of silver
- Total 2019 sales from Campo Morado were US\$21,799

#### Tahuehueto

##### Pre-production\* the fourth quarter of 2019

- Produced 94 tonnes of lead concentrate grading approximately 33% lead, 71 g/t gold, 897 g/t silver and sold 94 tonnes of lead concentrate for total sales of US\$360

- Produced 74 tonnes of zinc concentrate grading an average of 49% zinc, 23 g/t gold, 529 g/t silver and sold 74 tonnes of zinc concentrate generating revenue of US\$107

Pre-production\* for the year ended 2019

- Produced 434 tonnes of lead concentrate grading approximately 39% lead, 91 g/t gold, 852 g/t silver and sold 434 tonnes of lead concentrate for total sales of US\$2,089
- Produced 624 tonnes of zinc concentrate grading an average of 48% zinc, 11 g/t gold, 144 g/t silver and sold 624 tonnes of zinc concentrate generating revenue of US\$650
- Total 2019 payable metals produced at Tahuehueto were approximately 1,845 oz gold 17,842 oz silver, 247 tonnes zinc, 169 tonnes of lead
- Total 2019 pre-production\* sales from Tahuehueto were US\$3,043

*\* Cautionary note - For accounting purposes, pre-commercial production revenues and costs and expenses incurred are capitalized to Mineral Interest and Development Assets up to the total of capitalized development asset. Any excess in revenues over the development asset, if any, is presented in the statement of income and comprehensive income as recovery of expenses under other income (see Note 7 of the annual consolidated financial statements for the year ended December 31, 2019).*

b) Mining and Processing

Campo Morado

Mining and processing during the fourth quarter of 2019

- By August 14, 2019, the Company placed Campo Morado under care and maintenance resulting in no mining and/or ore processing during the fourth quarter of 2019

Tahuehueto

Mining and processing during the fourth quarter of 2019

- There was no mining during the fourth quarter of 2019, however processing activities during the same quarter produced 95 tonnes of lead concentrate with averaging grades of 32.98% Pb, 52.15 g/t Au, 863 g/t Ag, and 64 tonnes of zinc concentrate grading 46% Zn, 658 g/t Ag and 27.51 g/t Au.

Mining and processing during the year ended 2019

Campo Morado

- Approximately 257,427 tonnes of mineralized material were mined with average grades of 4.75% zinc, 0.39% copper, 1.10% lead, 119g/t silver, 1.29 g/t gold.
- Average recoveries achieved during 2018 were 70.1% zinc, 33.1% lead, 16.4% gold, 37.8% silver
- 253,876 tonnes of mineralized material were processed through the processing plant.
- 200 meters of underground development was advanced within 159 meters of ramps and access in waste and 41 meters in mine preparation.

Tahuehueto

- Pre-production mining produced approximately 32,542 tonnes of ore.
- 13,574 tonnes of ore were shipped and processed by toll milling with average grades of 4.23g/t gold, 41 g/t silver, 2.89% zinc, 1.48% lead. Remaining 18,968 tonnes of ore is stored on project site for future processing upon completion of construction of Tahuehueto processing plant
- Average recoveries achieved during 2019 toll milling were 83.83% gold, 84.56% silver, 88.89% lead, 82.02% zinc and 93.37% copper.
- Telson advanced a total of 1.0 km of underground development, 142 meters within ore which supplied the pre-production toll milling feed and 861 meters in waste preparing the mine for future commercial production.

## **4.- Annual and Quarterly Financial Performance Results**

### **Selected Annual Financial Information**

	<b>As at December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Gross revenues	\$ 31,026	\$ 34,755	\$ –
Mine operating profit	2,409	108	–
Loss for the year	(29,356)	(6,243)	(2,194)
Basic and diluted loss per share	(0.21)	(0.05)	(0.02)
Cash	145	116	11,997
Total assets	51,234	67,708	65,000
Non-current liabilities	6,228	11,937	25,430
(Deficiency) Equity	(24,131)	4,815	1,831
Working capital (deficiency)	(56,238)	(32,627)	(16,362)

*Reader is referred to Note 1 and 2 above - Factors influencing revenues during Q3 and Q4 of 2019 and 2018*

The Company was financed and restructured by the end of 2015 with a change of control and management. The year 2016 was dedicated to finding additional funding sources to move the Tahuehueto project forward. In January 2017, the Company released the results of the Tahuehueto project pre-feasibility study which demonstrated economically recoverable reserves, therefore management concluded the project was viable and decided to move the project into development phase. In April of 2017, the Company announced it had entered into a purchase agreement to acquire the Campo Morado Mine. In June 2017, the purchase agreement closed, and management started the rehabilitation of the mine with the intention to put it back into production as soon as possible. In October 2017, Campo Morado Mine restarted operations. During the year 2018, Campo Morado Mine was advanced into commercial production effective May 15, 2018, as a result of over 60 days of operational steady state production at 75% of management's targeted mill capacity of 2,500 tonnes per day. Campo Morado continued with a steady production until June of 2019, when due to declining Zinc prices and community relations difficulties management decided to curtail mining operations and by August of 2019 place the mining project in care and maintenance. By the end of 2019 and as a result of improvement in zinc prices and community relations the Company decided to reactivate activities at Campo Morado to bring it out of care and maintenance and back into production by the end of January 2020.

During the year 2017 the Company also began processing Tahuehueto ore, on a test basis, using a third-party toll mill processing plant and as a result of positive results, management decided to enter into a continuous pre-production program by mining and shipping ore to an off-site toll mill. Management later in the same year also elected to advance Tahuehueto into mine construction and acquired a mineral processing facility capable of processing up to 1,000 tonnes per day for that purpose. During the year 2018, the Company started the construction of the camp, cafeteria, processing plant and laboratory in addition with the development of the mine. In the year 2019, the Company focused more on the development of the mine advancing more than 1km preparing the mine for future production, however by the month of June financial difficulties did not allow to continue advancing the project and by the month of August the Company place Tahuehueto into care and maintenance. Recent developments in mid-2020 suggest that the Company might be able to get enough funding to continue and finalize the project to start production in about six to eight months after the funding is secured.

### **Comparison of Year ended December 31, 2019 and 2018.**

The following table is a summary of the consolidated statements of loss and comprehensive loss of the company for the years ended December 31, 2019 and 2018.



	As at December 31,			
	2019		2018	
<b>Mine operating profit</b>	\$	2,409	\$	108
<b>General Expenses</b>		29,641		6,674
<b>Other (income) expense</b>		2,109		(342)
<b>Total loss before income tax</b>		(29,341)		(6,224)
<b>Income tax expense</b>		15		19
<b>Net loss for the year</b>	\$	(29,356)	\$	(6,243)
Foreign currency translation adjustment		(432)		(193)
<b>Total comprehensive loss for the year</b>	\$	(29,788)	\$	(6,436)

During the year ended December 31, 2019 the Company recorded a net loss for the period in the amount of \$229,356 and comprehensive loss for the period of \$29,788. Net loss increased by \$23,113 and comprehensive loss increased by \$23,352 when compared to the 2018 comparative periods. The main reason for the significant increase is the impairment booked during the three months ended December 31, 2019, which relates to Campo Morado.

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.

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 copper, zinc, 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.

Other important variances relate to the fact that during 2018 the Company declared commercial production, therefore only seven months and a half are recorded in the income statement. On the other hand, during 2019 the Company only operated for about six months of the year.

Mine operating earnings for the twelve months ended December 31, 2019 and 2018 is comprised of:

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenue</b>		
Gross sales	\$ 31,026	\$ 34,755
Treatment and selling costs	(10,425)	(2,318)
	<u>20,601</u>	<u>32,437</u>
<b>Cost of Sales</b>		
Production cost	14,910	30,265
Royalties	691	1,215
Accretion of provision for site reclamation and closure	1,589	310
Depletion, depreciation and amortization	1,002	539
	<u>18,192</u>	<u>32,329</u>
<b>Mine operating earnings</b>	<b>\$ 2,409</b>	<b>\$ 108</b>

Mine operating earnings is the net result of revenues less cost of sales for the year ended December 31, 2019, the Company sold an estimated 16,809 tonnes of zinc concentrate and 3,803 tonnes of lead concentrate at an average price per tonne of US\$2,580 and US\$1,983 respectively. Resulting in net revenue of \$20,601. Revenue is net amount of treatment changes, freight and selling costs.

Total cost of sales incurred during the year ended December 31, 2019 was \$18,192 which includes production cost in the amount of \$14,910, which relates to direct costs attributable to the production of concentrates. It also includes royalties in the amount of \$691, which relate to a discovery royalty payable to Servicio Geologico Mexicano. Accretion, depreciation, and depletion were also included for a total of \$2,591. Accretion recorded relates to the increase in the carrying amount of the provision for site reclamation and closure due to the passage of time by using a discounted cash flow approach. Depreciation for equipment was recorded using the straight-line method and depletion were recorded to recognize the declining value of its tangible assets due to its use based on the methodology of units-of-production over the estimated mineral resources.

During the year ended 2019, the productivity of Campo was affected since the project only operated for about six months of the year. This was the result of 1) concerned about the health and welfare of Campo Morado workforce due to certain activities in the vicinity of the project and 2) the decline in zinc prices.

Total cost of sales incurred during the year ended December 31, 2018 was \$32,329, which includes production cost in the amount of \$30,265 which relates to direct costs attributable to the production of concentrates. It also includes royalties in the amount of \$1,215 which relate to a discovery royalty payable to Servicio Geologico Mexicano. Accretion, depreciation, and depletion were also included for a total of \$849. During the same period in the previous year the Company did not record any revenues or cost of sales from January 1 to May 14, since Campo Morado was under commissioning and pre-production phase, therefore all proceeds from the sales of concentrates and associated costs were capitalized net to mineral interest and development assets within non-current assets until the commencement of commercial production on May 15, 2018.

Overall, net revenues, cost of sales and operating results were affected significantly during the year ended December 31, 2019 as Campo Morado did not operate for about six months. During 2019 the company processed 253,876 tonnes of mineral compared to approximately 353,844 tonnes processed in the previous year only considered after commercial production was declared, this represents a drop of almost forty percent. Treatment and selling cost reported a significant increase from the previous year and this was because of treatment charges increased and ocean freight. During the current year, the Company incurred on average a treatment and selling charge of US\$309 per tonne compared to US\$154 in 2018. Production costs associated with the production also decreased accordingly on the same basis as production dropped. Depreciation was recorded for a full year in 2019 despite the number of months in operation. In comparison, during the previous year a portion of the depreciation was capitalized as development up until the Company declared commercial production on May 15, 2018.

General and administration expenses for the year ended December 31, 2019 and 2018 are comprised of:

	Year ended December 31,	
	2019	2018
<b>General Expenses</b>		
Consulting fees, wages and benefits	\$ 5,608	\$ 1,896
Legal and professional fees	291	704
Office, rent and administration	1,534	1,309
Amortization of right-of-use assets	187	–
Regulatory, transfer agent and shareholder information	27	90
Travel, promotion and investor relations	237	841
Share-based compensation	45	1,834
Impairment of Campo Morado assets	21,712	–
	\$ 29,641	\$ 6,674

During the year ended December 31, 2019 general expenses of \$29,641 were incurred, as compared to \$6,674 in the year ended December 31, 2018. The increase of \$22,967 is mainly attributable the impairment of assets in Campo Morado. 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 every reporting period. 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. As a result, the company recorded a \$21,712 impairment compared to \$nil in the previous year.

Additionally, during the current period the Company recorded \$45 as stock-based compensation expense with no additional stock option grant during 2019, compared to \$1,834 recorded as stock based compensation in the comparative period as a result of 3,730,000 stock options granted in November 11, 2017 with a fair value of \$0.71 per option and 450,000 stock options granted in April 2018 with a fair value of \$0.60 per option calculated using the Black-Sholes fair value model. Office, rent, and administration reported higher expenditures during the current period of \$1,534 compared to \$1,309 in the year ended December 31, 2018, in connection additional costs recorded for labour obligation in connection to employee reductions.

Travel promotion and investor relations expenses decreased by \$604 when compared to the year ended December 31, 2018 in response to less marketing efforts to promote the Company during the current period as lower overall activity in the Company produced by placing both projects into care and maintenance. The Company also booked \$187 as amortization of right of use assets as the new IFRS 16 came into effect effective Jan 1, 2019.

Other (income) expense for the year ended December 31, 2019 and 2018 is comprised of:

	<b>As at December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Other (income) expense:</b>		
Interest income and other income	\$ —	\$ (670)
Accretion and change of provision for site reclamation and closure	35	190
Change in value of marketable securities	(526)	(126)
Interest expenses and other expenses	3,041	1,226
Foreign exchange gain	(441)	(962)
	<b>\$ 2,109</b>	<b>\$ (342)</b>

Other expenses in the amount of \$2,109 were recorded for the year ended December 31, 2019, compared to other income of \$342 recorded in the same period of previous year. The decrease is mainly attributable to the interest expenses.

Interest expenses and other expenses increased by \$1,815 in connection to late interest charges and other fees in connection to the Nyrstar, Trafigura, and Caterpillar financing and accounts payable.

### **Comparison of the three months ended December 31, 2019 and 2018**

During the three months ended December 31, 2019, the Company reported a total net loss of \$24,163, total comprehensive loss of \$24,731 and basic and diluted loss per share of \$0.17, compared to a total net loss of \$2,804, total comprehensive income of \$1,553 and basic and diluted loss per share of \$0.02, for the three months ended December 31, 2018.

The net loss for the three months ended December 31, 2018 and 2017 is comprised of the following items:

	<b>Three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Mine operating profit</b>	\$ 90	\$ 2,289
<b>General Expenses</b>	(23,083)	(1,763)
<b>Other income (expenses)</b>	(1,155)	(3,311)
<b>Total loss before income tax</b>	(24,148)	(2,785)
<b>Income tax expense</b>	(15)	(19)
<b>Net loss for the year</b>	\$ (24,163)	\$ (2,804)
Foreign currency translation adjustment	(568)	4,357
<b>Total comprehensive (loss) Income for the year</b>	<b>\$ (24,731)</b>	<b>\$ 1,553</b>

Mine operating profit is the net result of revenues less cost of sales for the period. During the three months ended December 31, 2019, the Company sold 1,099 tonnes of zinc concentrates and 142 tonnes of lead concentrate at an average price of US\$2,242 and US\$1,860 per tonne resulting in net revenue of US\$1,077, net of treatment and selling costs. During the comparative period, the Company sold 9,950 tonnes of zinc concentrates and 2,229 tonnes of lead concentrate at an average price of US\$2,475 and US\$2,086 per tonne resulting in net revenue of US\$9,036, net of treatment and selling costs.

The significant changes when compared the two periods above is the fact that Campo Morado mining project was not operating during the last quarter of 2019 since it was placed on care and maintenance in August of that year. Additionally, although concentrates sales were reported in this quarter those sales relate to product produced during the first half of the year and stored at Campo Morado until it was shipped out during the month of October of 2019. Furthermore, during the fourth quarter of 2019 the Company recorded a \$21,712 impairment on the assets of Campo Morado mainly attributable to a decline in zinc prices and the Company having suspended operations.

Mine operating earnings for the three months ended December 31, 2019 and 2018 is comprised of:

	<b>Three months ended December 31,</b>			
	<b>2019</b>		<b>2018</b>	
<b>Revenue</b>				
Gross sales	\$	1,580	\$	13,519
Treatment and selling costs		(481)		1,196
		1,099		14,715
<b>Cost of Sales</b>				
Production cost		319		11,490
Royalties		38		384
Accretion of provision for site reclamation and closure		396		122
Depletion, depreciation and amortization		256		431
		1,009		12,427
<b>Mine operating earnings</b>	<b>\$</b>	<b>90</b>	<b>\$</b>	<b>2,288</b>

Net revenues, cost of sales and operating results were affected significantly for the three months ended December 31, 2019 when compared to the same period in the previous year. This is because Campo Morado was not operating during this period since it was placed under care and maintenance. Additionally, the net revenues reported mainly relate to concentrates shipped out during the month of October but produced in June of the same year. Cost of sales include fixed costs and the unwinding of operations at Campo Morado while it was placed into care and maintenance. Accretion reported during the three months ended December 31, 2019 is higher as the previous period compared as it includes an adjustment done based on the year-end review.

During the last quarter of 2018, the Company produced and sold 9,950 tonnes of zinc concentrates and 2,229 tonnes of lead concentrate with an average price of US\$2,475 and US\$2,086 per tonne resulting in net revenue of US\$9,036, net of treatment and selling costs.

General and administration expense for the three months ended December 31, 2018 and 2017 is comprised of:

	<b>Three months ended December 31,</b>			
	<b>2019</b>		<b>2018</b>	
<b>General Expenses</b>				
Consulting fees, wages and benefits	\$	1,244	\$	479
Legal and professional fees		49		208
Office, rent and administration		(92)		740
Amortization of right-of-use assets		187		–
Regulatory, transfer agent and shareholder information		(6)		33
Travel, promotion and investor relations		(11)		90
Share-based compensation		–		213
Impairment of Campo Morado assets		21,712		–
	<b>\$</b>	<b>23,083</b>	<b>\$</b>	<b>1,763</b>

The main change for the three months ended 2019 and 2018 compared above is mainly attributable the impairment of assets in Campo Morado. 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 every reporting period. During the fourth quarter of 2019, Management determined that there were indicators of impairment on the Company's Campo Morado mining project due to the decline in zinc prices, and the Company having suspended operations at the Campo Morado throughout the year. As a result, the company recorded a \$21,712 impairment compared to \$nil in the previous year.

Consulting fees, wages and benefits increased by \$765 when compared to the three months ended 2018 as the Company incurred in additional labour obligations in connection to reducing the number of employees in all areas of the Company.

During the current period, the Company recorded \$nil as stock-based compensation expense compared to \$213 recorded in the comparative period. During the current period, all stock option expense was amortized from previous stock options grants and no new stock options were granted in 2019. The \$213 recorded in the previous period relate to 3,730,000 stock options granted in November 11, 2017 with a fair value of \$0.71 per option and 450,000 stock options granted in April 2018 with a fair value of \$0.60 per option calculated using the Black-Sholes fair value model.

Other (income) expense for the three months ended December 31, 2019 and 2018 is comprised of:

	Three months ended December 31,	
	2019	2018
<b>Other (income) expense:</b>		
Interest income and other income	\$ 81	\$ (296)
Accretion and change of provision for site reclamation and closure	9	2
Change in value of marketable securities	(526)	(150)
Interest expenses and other expenses	3,468	604
Foreign exchange gain	(1,730)	3,151
	<b>\$ 1,302</b>	<b>\$ 3,311</b>

Other expense in the amount of \$1,302 was recorded for the three months ended December 31, 2019, compared to other expense of \$3,311 recorded in the same period of the previous year. The decrease is mainly attributable to interest and related financing costs recorded mainly to credit facilities with Nyrstar, Trafigura, Escorfin, and Caterpillar. In some of these credit facilities the Company is incurring in late interest rates.

Foreign exchange turned into a gain of \$1,730 in the current period when compared to a foreign exchange loss of \$3,151 incurred during the three months ended December 31, 2018. The Company records foreign exchange as a result of holding balances in currencies that are different from the functional currency for the subsidiary. The Company operates in foreign jurisdictions, which use both the Mexican Peso and United States Dollar. Foreign exchange is calculated using exchange rate on date of the transaction or monthly average exchange rates that approximate those in effect at the transaction dates for transaction recorded in the statement of loss and comprehensive loss.

### **Selected Quarterly Financial Information**

	2019				2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Gross revenues	\$ 1,580	\$ 1,068	\$ 13,043	\$ 15,335	\$ 13,519	\$ 12,259	\$ 8,977	\$ -	\$ -	\$ -	\$ -	\$ -
Mine operating profit (loss)	90	(233)	(501)	3,053	2,289	(3,168)	987	-	3,080	(3,080)	-	-
Net (loss) income	(24,163)	(3,259)	(2,615)	681	(2,785)	(750)	(2,470)	(218)	(139,958)	(37,854)	176,498	(881)
Basic and diluted income (loss) per share	(0.17)	(0.02)	(0.02)	0.00	(0.02)	(0.01)	(0.02)	(0.00)	(1.37)	(0.40)	1.88	(0.01)
Cash and cash equivalents	145	17	47	39	116	1,243	1,211	6,679	11,997	145,389	177,536	1,931
Total assets	51,234	71,220	70,002	71,801	67,708	60,018	56,156	64,896	65,000	188,161	219,104	4,494
Non-current liabilities	6,228	11,248	11,431	11,695	11,937	21,214	20,756	22,995	25,430	11,089	6,703	5,620
Equity	(24,131)	(194)	1,525	5,072	4,816	(3,788)	1,156	566	1,831	140,897	178,734	(2,311)
Working capital (deficiency)	(56,238)	(42,217)	(39,384)	(33,970)	(32,626)	(27,283)	(19,227)	(21,918)	(16,362)	(15,217)	(18,645)	1,257

The Company operated Campo Morado for the first six months during the year 2019, placing the project into care and maintenance in August of 2019 due to declining zinc prices and difficulties with the surrounding communities. As a result, during the last quarter of 2019 the Company recorded an impairment of the mineral properties of Campo Morado for an amount of \$21,712. Additionally, since stopping the operations of Campo Morado project the financial situation of the Company started deteriorating quickly and without any success in acquiring new financing through loans, issue new shares through equity offerings or sell assets, the Company had to place Tahueto project into care and maintenance and maximize any available resources. In addition, due to the lack

of financial resources the Company has not paid its main creditors and therefore all the credit facilities have been presented in the short term.

During Q2-2018, the Company declared commercial production at Campo Morado Mine, resulting in mine operating profit and net loss during that quarter. Before declaring commercial production on May 15, 2018, all pre-commercial revenues and costs incurred were capitalized as mineral assets and development costs. Any excess in revenues over the cost incurred is presented in the statement of income and comprehensive income as recovery of expenses under other income (see Note 8 of the annual consolidated financial statements for the year ended December 31, 2019). Q4-2019 significant differences in the operating results are in connection to the fact that the Company had no production or sales during such period since Campo Morado was placed under care and maintenance. The Q2-2018 and Q3-2018 losses are also affected by a decline in metal prices during those periods and higher general expenses reduced by foreign exchange gains.

During historical quarters, the quarterly results fluctuate depending on: 1) timing of stock option grants. A large stock option grant, in which all eligible employees were considered happened in November of 2017 which resulted in higher stock-based compensation expense, 2) foreign exchange fluctuations; During Q1-2018 the Company changed its functional currency in Real de la Bufa from the Canadian dollar to the US dollar as the Tahuehueto property, held by Real de la Bufa, had transitioned to the development stage and commenced mine commissioning activities, and is now generating US dollar cash flows from pre-production sales. In addition, the US dollar was also determined to be the functional currency of Campo Morado since it represents the currency of the primary economic environment it operates, as the majority of the development, operational and pre-commercial sales activities are denominated or are influenced by, and 3) changes in the initially estimated fair value of Campo Morado Mine in connection to its acquisition as required under business combinations.

### **Cash flow results**

The following table provides a summary of cash flows for the three months and year ended December 31, 2019 and 2018:

	Three months ended December 31,		Years ended December 31,	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities	\$ 1,004	\$ 2,077	\$ 4,398	\$ 2,076
Investing activities	2,039	(7,800)	(1,779)	(7,801)
Financing activities	(308)	(5,401)	(1,412)	(5,400)
Effect of foreign exchange rate changes on cash	(2,607)	(757)	(1,178)	(756)
(Decrease) increase in cash and cash equivalents during the period	128	(11,881)	29	(11,881)
Cash and cash equivalents, beginning of period	17	11,997	116	11,997
Cash and cash equivalents, end of period	\$ 145	\$ 116	\$ 145	\$ 116

As of December 31, 2019, the Company had a cash balance of \$145 and working capital deficiency of \$56,238. Current liabilities as of December 31, 2019 are in the amount of \$69,138, which have been incurred in connection with the acquisition and restart of Campo Morado mining project, the advancement of the Tahuehueto project into development and maintaining the Company's public listing in good standing. In addition, the Company is outside in certain covenants related to the credit facility with Trafigura and have not paid all of its main creditors as agreed on the related contracts, as a result all of the balances outstanding in connection to these credit facilities are presented as current liabilities as at December 31, 2019.

During the year ended December 31, 2019, the Company generated net cash in operating activities in the amount of \$4,398 compared to cash generated of \$2,076 for the same period in 2018. The increase in cash is due to favourable changes in working capital items and cash generated from operations. Cash generated from operations relates to operating activities and revenues provided by Campo Morado project.

Although Campo Morado was not operating the Company was able to realize sales from concentrates stored at Campo Morado which were produced in June of 2019. As a result, the cash from operating activities was not significantly different when compared to three months ended December 31, 2018. Additionally, the Company has tried to maximise its available financial resources and delaying payments to suppliers and creditors.

The Company also used cash for \$1,779 in investing activities during the year ended December 31, 2019 compared to cash used of \$7,801 during the period ended December 31, 2018. The cash used in the current period predominantly relates to additions to new development and construction in progress in connection with Tahuehueto mining project. In addition, the Company redeemed \$1,138 from marketable securities.

During the comparative period, the Company used cash of \$7,801 in investing activities which was the result of additions of \$7,392 to the property plan and equipment for Campo Morado Mine, and the construction of different facilities at Tahuehueto. It also includes additions to mineral properties and development assets for \$4,605 as cash inflow which resulted as revenues from pre-production were higher than their related costs. As for the Tahuehueto project the Company added \$5,472 in development related to advancing Tahuehueto project into production. The Company also purchased marketable securities from cash generated in connection to a private placement which are designated to be used mainly for Tahuehueto.

During the three months ended December 31, 2019 had cash inflows in the amount of \$2,039 in investing activities compared to \$7,800 in cash invested during the same period from the previous year. The significant difference relates to the large amount invested in the previous year in the development and construction of Tahuehueto. During the current quarter, the investment was kept to the minimum in order to maximize financial resources.

During period ended December 31, 2019, the Company used cash in its financing activities in the amount of \$308 (December 31, 2018 – \$5,401). This cash was used mainly to repay debt and interest in connection to loans from Trafigura. Additionally, the Company received \$795 in connection to private placements. The cash used during the comparative period was mainly used to partially pay Nyrstar for the acquisition of Campo Morado.

## 5.- Campo Morado Mine and Tahuehueto Mining Project

### Campo Morado Mine

#### Summary of NI 43-101 compliant Mineral Resources and Preliminary Economic Assessment, the “PEA”

The PEA Report was prepared by Eric Titley BSc, PGeo of Titley Consulting Ltd., William J. Lewis BSc, PGeo of Micon International Limited (“Micon”), Christopher Jacobs CEng, MIMMM of Micon, James W.G. Turner BSc(Hons) ACSM, MSc MCSM, MIMMM CEng of Micon and Eur Ing Bruce Pilcher CEng, FIMMM, FAusIMM (CP) of Micon.

#### Campo Morado PEA Highlights

Undiscounted cash flow before income and mining taxes of US\$114M

- Pre-tax Net Present Value (“NPV”) at a 8% discount rate of US\$81M
- Undiscounted cash flow after income and mining taxes of US\$91M
- After-tax NPV at a discount rate of 8% of US\$65M
- Life of mine (“LOM”) of 12 years, with 9.7 million tonnes of potential mill feed at an average grade of 4.33% zinc grade, 1.00% lead grade, 0.78% copper grade, 131.9 grams per tonne (“g/t”) of silver and 1.71 grams per tonne (“g/t”) of gold.

Note – only potential mill feed resources located in close proximity to existing underground mine workings that are easily accessible with limited mine development are currently included in the PEA mine plan. There are additional measured and indicated resources of approximately 6.9 million tonnes available that could extend the projects LOM.

- Mining rate of 2,500 tonnes per day (“tpd”)

Campo Morado Mine resources estimate with effective date as at November 5<sup>th</sup>, 2017:

Cut-off ZnEq (%)	ZnEq (%)	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb %	Zn (%)
Measured							
3.0	6.94	17,004,000	1.34	91	0.73	0.67	3.17
4.0	7.87	13,412,000	1.49	104	0.76	0.78	3.71
<b>5.5</b>	<b>9.27</b>	<b>9,292,000</b>	<b>1.70</b>	<b>124</b>	<b>0.82</b>	<b>0.94</b>	<b>4.56</b>
7.0	10.71	6,318,000	1.88	143	0.87	1.11	5.44



## Indicated

3.0	5.78	16,848,000	1.25	85	0.68	0.61	2.25
4.0	6.62	12,324,000	1.42	99	0.72	0.73	2.68
<b>5.5</b>	<b>7.94</b>	<b>7,335,000</b>	<b>1.70</b>	<b>123</b>	<b>0.78</b>	<b>0.92</b>	<b>3.31</b>
7.0	9.32	4,086,000	1.96	151	0.86	1.12	3.94

## Measured + Indicated

3.0	6.36	33,852,000	1.29	88	0.70	0.64	2.71
4.0	7.27	25,736,000	1.46	102	0.74	0.76	3.22
<b>5.5</b>	<b>8.68</b>	<b>16,627,000</b>	<b>1.70</b>	<b>123</b>	<b>0.80</b>	<b>0.93</b>	<b>4.01</b>
7.0	10.16	10,404,000	1.91	146	0.87	1.11	4.85

## Inferred

3.0	5.03	3,316,000	0.98	76	0.52	0.58	2.10
4.0	5.85	2,152,000	1.11	90	0.55	0.71	2.54
<b>5.5</b>	<b>7.27</b>	<b>988,000</b>	<b>1.32</b>	<b>116</b>	<b>0.64</b>	<b>0.92</b>	<b>3.20</b>
7.0	8.75	416,000	1.52	148	0.76	1.10	3.78

## Campo Morado Operations

Telson purchased Campo Morado in June 2017 and during the fourth week of August 2017, Telson commenced underground pre-production mining operations at Campo Morado. Mining development commenced within the El Largo Zone with mineralized mined development material transported and stockpiled at the mill site.

Pre-production test milling operations started on October 14, 2017. Mining and milling pre-production operations continued from January 1, 2018 through to May 14th, 2018 and on May 15th, 2018 Telson declared Commercial Production.

On August 14, 2019 the Company suspended mining operations at Campo Morado placing the mine into care and maintenance as a result of week zinc prices and certain issues with a small group of local community members.

Telson brought the mine out of care and maintenance and reinitiated mining and milling operations during late January 2020, temporarily suspended operations during April and May 2020 as mandated by the Mexican Government for COVID-19 precautions, and re-initiated Mining operations June 4, 2020 after mining was declared an essential service within Mexico.

As of the date of this management discussion mining operations are continuing.

Management plans to investigate technologies for the potential increase of precious metal recoveries at Campo Morado and if successful, will have additional mine flexibility to target precious metal rich zones in times of reduced base metal pricing. These technologies may also allow the Company to reprocess the existing tailings stored in the historic tailings facility to potentially recover a portion of the precious metals contained within the tailings.

- Maelgwyn Mineral Services, a UK based consulting engineering company specializing in metal recovery technology particularly in the recovery of precious metals from refractory ores, conducted preliminary Leachox Process testing of samples from Campo Morado in 2013 for Nyrstar, the mines' former owner. Samples tested were from 2013 process tailings, presumably G9 Zone, as well as fresh mineralization from the Reforma deposit, a future production zone. For more detailed technical information on the Leachox process, please visit the Maelgwyn website at: <https://www.maelgwyn.com/maelgwyn-minerals-leachox-refractory-gold-process-hits-the-gold-standard/> Maelgwyn Leachox testing indicated that substantial increases in precious metal recoveries could be available at Campo Morado using Maelgwyn Leachox Process. Very positive results were obtained in the 2013 testing for both of the samples submitted with a maximum recovery of 65% gold and 75% silver at a grind size of 20 microns from the process tailings sample and a maximum recovery of 45% gold and 81% silver at a grind of 40 microns from the Reforma deposit sample. The report stated, "It should be noted that

the above test work was performed at a scouting level only and higher recoveries would probably be achieved with optimization work”.

Telson Management intends to continue Leachox testing to determine the viability of incorporating this technology at Campo Morado to achieve markedly increased gold and silver precious metal recoveries.

## **Tahuehueto Mining Project**

### **NI 43–101 Compliant Pre-Feasibility Study**

In January 2017, Telson announced the results of a NI 43–101 compliant Prefeasibility Study (the “PFS”) for its Tahuehueto Project.

The PFS was prepared by Metal Mining Consultants Inc. based in Highlands Ranch, Colorado. The PFS was authored by Scott E. Wilson of MMC along with contributions from other industry experts. This PFS has been prepared in compliance with Form 43-101F1 (Technical Report) and Companion Policy 43-101CP. The effective date of the report is November 18, 2016.

The following summarizes the PFS.

The Tahuehueto Project (“Tahuehueto” or the “Project”) is an advanced stage polymetallic project. The mineralization consists of epithermal Au-Ag veins and brecciated structures with lead, zinc and copper, located in the Durango State within the prolific Sierra Madre Mineral Belt which hosts a series of historic and producing mines and most of México’s active exploration and development projects.

From 1996 to the day of this PFS, Telson and Real de la Bufa, S.A. de C.V., a Mexican subsidiary of Telson, have conducted surface and underground sampling and mapping, drilled 248 holes totalling 47,276m into several mineralized bodies, and conducted metallurgical testing, as well as geophysics and other geological studies. The Project consists of 28 mining concessions that total 7,492.7889 ha.

The Project configuration evaluated in the PFS is an owner-operated 790 tpd underground mine that will utilize overhand cut and fill mining with conventional mining equipment in a blast/load/haul operation. Mill feed will be processed in a 550 tpd comminution circuit consisting of primary and secondary crushing, grinding in a single ball mill followed by three floatation circuits producing lead, copper, and zinc concentrates. The concentrates will be trucked from site for smelting and refining.

The highlights of this Pre-Feasibility Study report include:

- Post-tax Net Present Value (“NPV”), using an 8% discount, of US\$77M, with an internal rate of return (“IRR”) of 36% and a payback period of three years.
- Pre-tax NPV, using an 8% discount, of US\$138M with an IRR of 56%.
- Financial Analysis completed on base case metal price forecasts of US\$0.87/lb for lead, US\$0.92/lb for zinc, US\$2.65/lb for copper, US\$1,180/oz for gold and US\$16.70/oz for silver.
- Metal Prices lower than 3-year averages.
- Average annual earnings before interest, taxes, depreciation, and amortization (“EBITDA”) of US\$16.7M per year and US\$352M over the life of the Project.
- Probable Mineral Reserves of 3.3 million tonnes, grading 3.4 g/t gold, 41.8 g/t silver, 0.31% copper, 1.1% lead and 2.0% zinc.
- 21-year mine life with average annual production of 16,100 oz of gold, 177,100 oz of silver, 900 k-lbs of copper, 3,200 k-lbs of lead and 5,600 k-lbs of zinc.

Pre-production capital costs of US\$32.2M including US\$17.2M surface site development including mill construction and US\$14.9M of mining equipment and preliminary underground development.

The mineral resource has been limited to mineralized material that occurs within the mineralized blocks and which could be scheduled to be processed based on the defined cut-off grade. All other material was reported as non-mineralized material.

Table 1.1 Tahuehueto Project Measured, Indicated, and Inferred Mineral Resource Estimate cut-off grade of 2.5 g/t of gold equivalent (AuEq)

Classification	kTonnes	Au Grade (gpt)	Cont Au kOz	Ag Grade (gpt)	Cont Ag kOz	Cu Grade (%)	Cont Cu klbs	Pb Grade (%)	Cont Pb klbs	Zn Grade (%)	Cont Zn klbs
Total Measured	2,771	2.77	247	44.70	3,982	0.31	18,914	1.27	77,827	2.29	139,821
Total Indicated	3,343	2.23	240	41.26	4,435	0.30	22,466	1.15	84,455	2.04	155,687
<b>Total Measured and Indicated</b>	<b>6,114</b>	<b>2.48</b>	<b>487</b>	<b>42.82</b>	<b>8,417</b>	<b>0.31</b>	<b>41,380</b>	<b>1.20</b>	<b>162,282</b>	<b>2.15</b>	<b>295,508</b>
Total Inferred	3,501	1.31	147	37.59	4,230	0.27	20,469	1.34	103,080	2.44	188,409

### Tahuehueto Bulk Sample and Pre-production Testing

On February 23, 2017, the Company announced that it had finalized the sale of lead and zinc concentrates produced from its industrial scale bulk sample collected from the El Creston zone during late 2016 and 2017, on its 100% owned Tahuehueto Project.

The collection and processing of this industrial test provided proof of concept that the selective mining method utilized in the bulk sample collection to be employed at Tahuehueto in future mining operations resulted in industry-standard mining costs and metal recovery processes utilized at the sulphide flotation toll mill were very successful in producing saleable lead and zinc concentrates.

### Tahuehueto Pre-production Program

Based upon the successful results of the above referenced industrial-scale bulk sample, Management elected to start a program of pre-production during the Tahuehueto mine development and construction phase. Mining commenced early June 2017 and continued throughout 2018 and part of 2019. Management curtailed pre-production at Tahuehueto during Q3 2019.

Tahuehueto Pre-production operations during 2019, produced a total of 32,558 tonnes of ore.

During 2019, an estimated 12,316 tonnes of ore were shipped to the Atocha Toll Mill.

Mineral processing at the Atocha Toll mill processed 13,574 tonnes of ore producing,

- 436 tonnes of lead concentrate with average grades of 90.08 grams per tonne gold, 879 grams per tonne silver, 39% lead, and 4.80% copper.
- 547 tonnes of zinc concentrate with average grades of 12.23 grams per tonne gold, 158 grams per tonne silver, and 45% zinc.

Overall average metal recoveries achieved during the 2019 were 83.83% gold, 84.56% silver, 88.89% lead, 82.02% zinc, and 93.37 copper.

### Underground Exploration

Tahuehueto underground development along the major mineralized structure, El Perdido, has now been extended approximately 225 meters along strike to the north-east from the Level 12 access decline. The first 60 meters of this development was designed to prepare reserves identified by previous drilling for mining, however, the development drift was extended in continuous mineralization beyond known reserves/resources outlined by previous drilling and exposed an additional 165 meters of continuous mineralization beyond the known drilling. This development is effectively serving as both mine development and underground exploration and is adding new resources at Tahuehueto. Underground exploration drilling is planned to further explore this newly exposed mineralization within the El Perdido structure.

Channel sampling results from this newly exposed El Perdido mineralization are the subject of corporate news releases available on the Company's web site and are verifying the continuity of mineralization along the El Perdido structure helping to prove managements assumption that the El Perdido Zone connects with the Santiago Zone on the same structure and if continuously mineralized will allow new exploration along approximately 800 meters of unexplored structure which could add significant additional resources to the project.

### Mine Construction and Underground Development.

The Company initiated underground development work in November 2017. Underground development is estimated to be 90% complete to provide continuous ore feed for at least the first full year of production to the on-site processing facility under construction. Development included the Level 12 decline, the El Perdido development

drift, El Creston development drift, the Haulage level portal, and the main access decline for Level 20 known as Ramp 540.

Telson initiated construction activities on-site at Tahuehueto in January 2018. To date, mill construction has advanced to within an estimated 60-70% of completion with concrete foundations, retaining walls, steel structures to house mill equipment ready for final stages of assembly. Flotation cells, conditioning tanks, pumps, and other processing equipment have been installed while grinding and crushing areas have reached an advanced stage being readied to receive equipment per the construction plans. Preparation of the mine laboratory and camp facilities such as dormitories, cafeteria and sanitation facilities are in final construction or completed. Water pumping system, electrical power generation and tailings storage facilities are in final stages of design engineering with construction to be initiated upon Telson securing additional construction funding.

Management advises that construction efforts to date have completed approximately 60-70% of mine development and construction at Tahuehueto. As a result of reduced cash flows from the Company's Campo Morado operations, management curtailed, on a temporarily basis, its construction efforts at Tahuehueto and has re-evaluated its anticipated timeline to complete construction of the 1,000 tonne per day mining operation. Management now estimated that within eight to twelve months of securing additional funding, mine construction and development should be completed to allow mill commissioning and the initiation of on-site pre-production.

On June 16, 2019 the company announced that it had it signed an updated term sheet with Accendo Banco, S.A. Institucion de Banca Multiple ("Accendo") whereby Accendo will, subject to final due diligence, provide Telson with a US\$12 Million Medium Term Loan Facility to fund the bulk of the final phase of Tahuehueto construction.. The reader is referred to the Company's press release of June 16, 2020 available on the Company's web site, [www.telsonmining.com](http://www.telsonmining.com)

Upon closing the above loan funding, the Company will immediately resume full scale construction efforts at Tahuehueto.

#### Mineral Properties and Development Assets

Effective January 1, 2017, the Company commenced capitalization of all direct costs related to the development of the Tahuehueto project to property, plant and equipment under IAS 16, as management determined the technical feasibility and commercial viability were established through the positive results associated with the pre-feasibility study, thereby moving it into a development stage asset under IFRS.

Additionally, since the acquisition of Campo Morado Mine the Company capitalized all direct costs related to the restart of the operations and the commencement of commercial production. Effective May 15 2018, the Company declared commercial production; therefore, the Company stopped capitalizing costs and expenses related to mineral interest and development assets for this project and since then, all revenues and cost of sales are now presented in the statement of income or loss.

As at December 31, 2019, 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
<b>Costs incurred:</b>			
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)
<b>Balance as at December 31, 2019</b>	<b>\$12,335</b>	<b>\$ -</b>	<b>\$12,335</b>

### Qualified Person

The Qualified Person who has reviewed and approved all technical disclosure in this MD&A is Ralph Shearing, P. Geol, who is the Company's CEO, President and Director.

### **6.- Non-GAAP measures**

The Company has included certain non-GAAP performance measures throughout this MD&A. These performance measures are employed by management to assess the Company's operating and financial performance and to assist in business decision-making. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors and other stakeholders use this information to evaluate the Company's operating and financial performance; however, as explained elsewhere herein, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

C1 cash cost per pound of payable zinc

C1 cash costs per pound of payable zinc for the Campo Morado Mine operation are estimated by adding the total cost to produce concentrate (mining, milling, site general and administration), adding the cost of transporting concentrate to the point of sale, adding the cost of smelter treatment and refining charges, subtracting the by-product credits estimated from sales of lead, silver, gold and dividing by the pounds of payable zinc. By-product credits are calculated using the realized weighted average metal price, during the year.

## All-in sustaining costs (“AISC”)

The Company believes that AISC more fully defines the total costs associated with producing zinc. The company calculates all-in sustaining costs as the sum of total cash costs (as described above), corporate general and administrative expense (net of stock-based compensation), reclamation cost accretion and amortization and sustaining capital, all divided by the zinc pounds produced to arrive at a per pound figure.

Other companies may calculate this measure differently as a result of differences in underlying principles and policies applied. Differences may also arise due to a different definition of sustaining versus growth capital.

	As at December 31,		Three months ended	
	2019	2018	2019	2018
<b>Non GAAP reconciliation</b>				
Production payable Zinc (1,000 lb)	13,345	21,806	–	8,354
Production cost per financial statements (US\$000) \$	11,238	\$ 23,351	\$ –	8,770
Treatment and refining charges (US\$000)	6,026	1,789	–	(941)
Freight (US\$000)	1,831	–	–	–
By-product credits (US\$000)	(5,381)	(5,769)	–	(2,277)
C1 cash cost (US\$000)	\$ 13,714	\$ 19,370	\$ –	5,552
<b>C1 cash cost per payable pound of zinc (US\$/lb)</b>				
Production Cost	0.84	1.07	–	1.05
Treatment and refining charges	0.45	0.08	–	(0.11)
Freight	0.14	–	–	–
By-product credits – estimated	(0.40)	(0.26)	–	(0.27)
C1 cash cost per payable pound of zinc (US\$/lb)	\$ 1.03	\$ 0.89	\$ –	0.66
<b>All-in Sustaining Costs</b>				
C1 cash cost (US\$000)	\$ 13,714	\$ 19,370	\$ –	5,552
Depletion, Depreciation & Amortization (US\$000)	755	416	–	332
Accretion (US\$000)	1,198	240	–	93
Corporate Costs (US\$000)	4,418	2,460	–	569
Royalties (US\$000)	521	937	–	(543)
Capital Expenditure (sustaining) (US\$000)	985	–	–	–
All-in Sustaining Costs (\$000)	\$ 21,591	\$ 23,423	\$ –	6,004
AISC per payable pound of zinc (US\$/lb)	\$ 1.62	\$ 1.07	\$ –	0.72

Note: Amounts in the table above are presented in thousands of US Dollars. These amounts were translated into US Dollars using the average foreign exchange rate or the true US Dollar amounts if available.

## 7.- Liquidity

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition, development, exploration and evaluation of assets. The Board does not impose quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain the future development of the business.

As of December 31, 2019, the Company had a cash balance of \$145 and working capital deficiency of \$56,238. Current liabilities as of December 31, 2019 are in the amount of \$69,137, which have been incurred in connection with the acquisition and restart of Campo Morado mining project, the advancement of the Tahuehueto project into development and maintaining the Company’s public listing in good standing. In addition, the Company is outside in certain covenants related to the credit facility with Trafigura and is behind in contractual payments and obligations, as a result all of the balances outstanding in connection to these credits are presented as current liabilities.

The Company expects that it will have sufficient cash flow to cover the cost of restarting operations at Campo Morado Mine and its overheads. However, 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 and overheads.

There are inherent risks to mining that may affect the Company's liquidity. The ability to generate revenue and positive cash flow will depend on the ability of the Company to meet its production targets, ship concentrates and realize economic commodity prices for Zinc, Lead, Gold and Silver. Exchange rates could also have a significant impact on the Company's profitability since some of its costs and expenses are denominated in currencies other than the US dollar.

The Company has received the following sources of capital:

### **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 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly instalments. Furthermore, the Company is required to pay back any cash disbursements in 24 equal consecutive monthly instalments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default of any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The funds from the LOC are to be applied towards the Company's investment plan established in its completed Internal Scoping Study. The obligations of the Company under the LOC are secured by substantially all the Real de la Bufa's assets, including certain mining concessions.

As at December 31, 2019, the Company has a balance of \$3,892 it has accrued interest in the amount of \$471 and repaid principal and interest in the amount of \$nil, during the current year. The Company is also behind in its contractual obligations in respect to the line of credit and is in negotiations to restructure the terms of the LOC.

### **Due to Nyrstar Mining Ltd**

As at December 31, 2019, the Company has a balance owing of \$11,905, which includes accrued interest of \$875 for the period and interest paid of \$35.

On June 13, 2017, The company acquired Campo Morado Mine for a total purchase price of US\$20 million as follows: 1) US\$0.8 million at signing of the agreement (paid), 2) US\$2.7 million on or before June 12, 2017 (paid), and 3) US\$16.5 million on or before June 13, 2018 (US\$8 million paid).

On June 12, 2018, the Company renegotiated the terms for the remaining US\$8.5 million balance of the Campo Morado Mine acquisition and entered into a loan agreement with Nyrstar. Subsequently, on November 19, 2018, the Company amended the terms of the loan agreement to mainly reduce the monthly principal repayment from US\$1.0 million to US\$500, which also effectively extended the repayment period. The main terms of the amended loan agreement are as follows:

- Monthly principal repayment of US\$500, plus
- A fixed interest rate of 10% per annum, plus
- Along with the monthly principal repayments and interest mentioned above, the Company will also pay:
  - 70% of any monthly free cash flow generated by Telson; plus, any monthly excess cash balance above US\$500; plus
  - 50% of the monthly free cash flow generated by Telson on the Tahuehueto Project once Telson declares commercial production.

On October 11, 2019, the Company received a formal notice of default on regards to the Campo Morado Loan Agreement. As a result, the Company is required within five business days from the date of the default notice letter to pay all amounts currently due and payable under the loan agreement.

Please refer to section 12.- Subsequent events, for more recent developments and status of this credit facility.

### **Loan Facilities**

On September 11, 2017, the Company entered into a loan agreement ("Loan Agreement Campo") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the amount of US\$5,000 for financing working capital to initiate the restart of continuous mining operations at the Campo Morado mining facility. The loan bears interest at an effective annual rate equivalent to LIBOR (3M) plus 5%, it has a three-year term with nine months grace period followed by thirty

monthly repayments. In connection to the loan agreement the Company also entered into an Offtake agreement with Minas de Campo Morado, S.A. de C.V., (“Offtake Agreement Campo”) in which the Company will sell all its zinc and lead concentrates for a fifty-one-month term starting October 2017.

As at December 31, 2019, the Company has a balance owing of \$4,565 (December 31, 2018 – \$4,813) which includes principal repayments, interest paid and interest accrued.

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 December 31, 2018 and its behind in its contractual obligations, therefore the outstanding balances are presented within current liabilities.

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

As at December 31, 2019, the Company has a balance of \$16,497 (December 31 2018 – \$17,210) which includes principal repayment, interest paid and interest accrued.

The loans are secured by the Campo Morado Mine and Tahuehueto Project mining concessions and certain property plant and equipment.

Under the terms of the loan agreements with Trafigura, 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. In addition, the Company must maintain in good standing by keeping all payments current in relation to the mining concession of Campo Morado Mine and Tahuehueto project. As at December 31, 2019, the Company is not in compliance with certain covenants and is behind in its contractual obligations in respect to these loans, therefore all the outstanding balances owing on these loans are presented within current liabilities.

The Company is currently working on negotiating with Trafigura new terms on the loan agreements, however there is no assurance the Company will be successful in reaching new terms on these loans. Also, please refer to subsequent event section of this document.

Please refer to section 12.- Subsequent events, for more recent developments and status of this credit facilities.

### **Right of use assets and right of use liabilities**

As a result of adopting IFRS 16, the Company analysed 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 average borrowing rate as at January 1, 2019 of 8.0% per annum.

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



	<b>Amount</b>
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)
<b>Balance lease liabilities, December 31, 2019</b>	<b>\$ 1,927</b>

## 8.- Capital resources

### Common shares issued

During the year ended December 31, 2019, the Company issued 20,000 common shares for total net proceeds of \$2 in connection with common shares issued as a result of stock options exercised. Additionally, the Company also received gross proceeds of \$795 in connection with a non-brokered private placement that closed on May 27, 2020.

During the same period of the previous year the Company issued 6,216,228 common shares for total gross proceeds of \$753 in connection with share purchase warrants and stock options exercised.

### Other sources of funds

As at December 31, 2019, the other sources of funds potentially available to the Company are through the exercise of outstanding stock options and share purchase warrants with terms as follows:

Stock options outstanding are as follows:

Expiry date	Outstanding		Remaining contractual life (years)	Exercisable
	Number of options	Exercise price		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	3,780,000
April 16, 2023	400,000	\$ 0.77	3.29	400,000
April 23, 2023	50,000	\$ 0.72	3.31	50,000
	<b>9,567,166</b>			<b>9,667,166</b>

Share purchase warrants outstanding are as follows:

Number of warrants	Exercise price	Expiry date
4,562,401	\$ 1.25	October 9, 2020

In the future, the Company may have capital requirements in excess of its currently available resources and may be required to seek additional financing. There can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

## 9.- Commitments

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
	<b>\$ 38,087</b>	<b>\$ 842</b>	<b>\$ 5,758</b>	<b>\$ 44,687</b>

### **VPP – Variable Purchase Price**

As part of the Campo Morado acquisition agreement, the seller retained the right to receive a variable purchase price on future zinc production on the first 10 million tonnes of ore processed 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:

US\$20 per tonne of zinc sold if the zinc price received is over US\$2,100 per tonne; or  
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 acquisition agreement to purchase 100% of the variable purchase price at any time for US\$4 million.

### **Royalties**

The Campo Morado Mine 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”). A portion of the Tahuehueto mineral property is also subject to a 1.6% net smelter return royalty (“NSR”).

### **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.

## **10.- Off-balance sheet arrangements**

The Company does not utilize off-balance sheet arrangements.

## **11.- Transactions between related parties**

The Company's related parties consist of the Company's directors, officers and companies associated with them including the following:

- Reyna Minas, S.A. de C.V., a company owned by Antonio Berlanga Balderas, the Chief Executive Officer, and
- Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. (“Escorfin”) with Roberto Guzman as a Director in common.

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management.

### 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
	<b>\$ 1,080</b>	<b>\$ 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.

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. 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.

	December 31, 2019	December 31, 2018
Current portion of the debt	\$ 1,724	\$ 184
Long term portion of the debt	1,426	2,922
Interest owing	819	274
<b>Balance</b>	<b>\$ 3,969</b>	<b>\$ 3,380</b>

Since November 6, 2018, the Company incurred interest in the amount of \$638 from which \$nil were paid.

## 12.- 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 April 17, 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 and,
- 2) Loan facility Real.

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.
    - 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.

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. Institucion 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:

- 1) Loan facility amount - US\$ 12 Million
  - 2) Repayment term - 3 years with a one-year grace period on principal
  - 3) Repayable in 24 equal monthly payments starting 12 months after closing
  - 4) Interest rate of 13.5% per annum
  - 5) Secured by second ranking security interest over all assets of the Company
  - 6) An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
  - 7) An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
  - 8) 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
  - 9) The loan facility is subject to final due diligence of Accendo
- e) On June 18, 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).

April 17, 2020, Telson announced that it had entered into a waiver request letter agreement with Trafigura, Trafigura Letter Agreement, where Telson agreed to transfer all the assets in the Campo Morado project and Tahuehueto project to the trustee of the Trust Agreement (the "Trust") so as to secure all of its Trafigura loan obligation and Trafigura waived past and forgoing defaults under Trafigura's loan agreement with Telson, deferring interest and principal payments until June 30, 2021. This Trust is in the process of being established.

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 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,

- 1) 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.
- 2) 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.
- 3) 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,
  - 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 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. Total issued and outstanding shares in the Company after completion of the Private Placement is 175,360,968.

### **13.- Proposed transaction**

None

### **14.- Critical accounting estimates**

This section is not required as the Company is a Venture Issuer, as the term is defined in National Instrument 51-102 Continuous Disclosure Obligations.

### **15.- Changes in accounting policies including initial adoption**

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

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases ("IAS 17") and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of 12 months or less) and leases of low value assets. Refer to note 3 of the Company's unaudited condensed interim consolidated financial statements as at September 30, 2019 and 2018 which outlines the financial effect of adoption of IFRS 16.

The Company's new accounting policy in respect to leases under IFRS 16 is as follows:

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

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

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

### **16.- Financial Instruments**

As at December 31, 2019, the Company's financial instruments consist of cash, marketable securities, amounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, obligation under share purchase obligation, current portion of the long-term debt and Nyrstar Mining, Ltd. The fair values of these financial instruments approximate their carrying values due to their short-term to maturity. Marketable securities are classified as level one and recorded at fair value using quoted market prices. The fair value of the long-term debt has been determined based on Level 1 of the fair value hierarchy and approximates their carrying values as the cost of the long-term debt is consistent with market rates.

The Company's financial instruments are exposed to certain financial risks including, credit risk, liquidity risk, foreign currency risks, interest rate risk, commodity and equity price risk and capital risk management. Details of each risk are laid out in the notes to the Company's consolidated financial statements.

## 17.- Other requirements

Outstanding share data

Authorized: Unlimited number of common shares

Number of common shares issued and outstanding as at July 30, 2020: 175,360,968

Number of common shares issued and outstanding as at December 31, 2019: 139,579,152

Stock options as at July 30, 2020:

Expiry date	Outstanding			Exercisable
	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	3,780,000
April 16, 2023	400,000	\$ 0.77	3.29	400,000
April 23, 2023	50,000	\$ 0.72	3.31	50,000
	<b>9,567,166</b>			<b>9,667,166</b>

Share purchase warrants as at July 30, 2020:

Number of warrants	Exercise price	Expiry date
4,562,401	\$ 1.25	October 9, 2020

## 18.- Disclosure Controls and Procedures

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the year ended December 31, 2019 and 2018, and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company on SEDAR at [www.sedar.com](http://www.sedar.com).