



# **TELSON MINING CORPORATION**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three Months Ended March 31, 2021 and 2020**

**UNAUDITED**

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

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# **TELSON MINING CORPORATION**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended March 31, 2021 and 2020

### **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited condensed interim consolidated financial statements of Telson Mining Corporation (the "Company") have been prepared by and are the responsibility of Company's management and approved by the Company's Audit Committee and Board of Directors.

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

May 26, 2021

# Telson Mining Corporation

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	As at March 31, 2021	As at December 31, 2020
<b>Assets</b>		
Current assets:		
Cash	\$ 10,792	\$ 257
Marketable securities (note 4)	3,887	4,271
Accounts receivable (note 5)	1,502	599
Prepaid expenses and deposits	1,987	1,759
Inventories (note 6)	5,927	5,980
	24,095	12,866
Non-current assets:		
Mineral interest and development assets (note 7)	17,278	16,585
Property, plant and equipment (note 8)	16,503	17,063
Taxes receivable long-term (note 5)	5,030	5,056
Other assets (note 10(e))	1,219	1,354
	40,030	40,058
<b>Total assets</b>	<b>\$ 64,125</b>	<b>\$ 52,924</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,790	\$ 29,955
Obligation under share purchase agreement (note 7(a))	253	255
Current portion of lease liabilities (note 11)	1,072	1,355
Short-term debt (note 10)	27,827	27,650
Due to Nyrstar Mining Ltd (note 7(b) and 9)	14,034	13,985
	69,976	73,200
Non-current liabilities:		
Long-term debt (note 10 (e))	545	531
Lease liabilities (note 11)	418	266
Provision for site reclamation and closure	5,502	5,638
	6,465	6,435
<b>Total liabilities</b>	<b>\$ 76,441</b>	<b>\$ 79,635</b>
<b>Deficiency</b>		
Share capital (note 12)	\$ 75,673	\$ 65,317
Equity reserves (note 13)	10,748	10,591
Accumulated other comprehensive loss	(1,787)	(1,867)
Deficit	(96,950)	(100,752)
Total deficiency	(12,316)	(26,711)
<b>Total liabilities and deficiency</b>	<b>\$ 64,125</b>	<b>\$ 52,924</b>

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

Approved by the Board of Directors on May 26, 2021, and signed on the Company's behalf by:

"David Rhodes"  
Director

"Ralph Shearing"  
Director

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

# Telson Mining Corporation

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

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

	Three months ended March 31,	
	2021	2020
<b>Revenues</b>		
Gross sales	\$ 21,216	\$ 7,727
Treatment and selling costs	(7,481)	(4,185)
	13,735	3,542
<b>Cost of Sales</b>		
Production cost	\$ 7,867	\$ 3,142
Royalties	451	133
Accretion of provision for site reclamation and closure	108	95
Depreciation and amortization (note 7 and 8)	120	109
	8,546	3,479
<b>Mine operating profit</b>	5,189	63
<b>General Expenses:</b>		
Consulting fees, wages and benefits (note 16)	\$ 582	\$ 1,249
Legal and professional fees	92	35
Office, rent and administration	307	123
Amortization of right-of-use assets (note 8 and 11)	5	43
Regulatory, transfer agent and shareholder information	3	16
Travel, promotion and investor relations	78	109
Share-based compensation (note 13 (a) and 16)	282	–
	1,349	1,575
<b>Other (income) expense:</b>		
Interest income and other	\$ (211)	\$ (429)
Accretion of provision for site reclamation and closure	7	8
Change in fair value of marketable securities (note 4)	196	(141)
Interest expense	493	398
Other expenses	55	–
Foreign exchange (gain) loss	(502)	419
	38	255
<b>Total Income (loss)</b>	\$ 3,802	\$ (1,767)
<b>Other comprehensive income (loss)</b>		
Items that will be reclassified subsequently to profit or (loss)		
Foreign currency translation adjustment	80	181
<b>Total items that may be reclassified subsequently to profit or (loss)</b>	80	181
<b>Total comprehensive income (loss) for the period</b>	\$ 3,882	\$ (1,586)
Weighted average number of common shares outstanding		
Basic	183,119,346	151,553,578
Diluted	263,053,587	151,553,578
Loss per share (note 15)		
Basic earnings (loss) per share	\$ 0.02	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.01	\$ (0.01)

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

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

	Number of common shares	Share capital	Share subscriptions received in advance	Equity reserves	Accumulated other comprehensive income (loss)	Deficit	Total
<b>Balance as at December 31, 2019</b>	<b>139,579,152</b>	<b>\$ 59,743</b>	<b>\$ 795</b>	<b>\$ 6,423</b>	<b>\$ (1,964)</b>	<b>\$ (89,128)</b>	<b>\$ (24,131)</b>
Subscriptions received in advance	–	–	35	–	–	–	35
Shares issued on private placement, net of issuance cost (note 12)	19,458,442	1,946	(795)	–	–	–	1,151
Loss and comprehensive income for the period	–	–	–	–	181	(1,767)	(1,586)
<b>Balance as at March 31, 2020</b>	<b>159,037,594</b>	<b>\$ 61,689</b>	<b>\$ 35</b>	<b>\$ 6,423</b>	<b>\$ (1,783)</b>	<b>\$ (90,895)</b>	<b>\$ (24,531)</b>
<b>Balance as at As at December 31, 2020</b>	<b>182,766,619</b>	<b>\$ 65,317</b>	<b>\$ –</b>	<b>\$ 10,591</b>	<b>\$ (1,867)</b>	<b>\$ (100,752)</b>	<b>\$ (26,711)</b>
Shares issued on private placement, net of issuance cost (note 12)	50,400,000	9,602	–	–	–	–	9,602
Stock options exercised (note 13)	2,903,335	377	–	–	–	–	377
Fair value of stock options allocated to share capital issued on exercise (note 12)	–	377	–	(377)	–	–	–
Share-based compensation (note 13)	–	–	–	534	–	–	534
Income and comprehensive income for the period	–	–	–	–	80	3,802	3,882
<b>Balance as at As at March 31, 2021</b>	<b>236,069,954</b>	<b>75,673</b>	<b>–</b>	<b>10,748</b>	<b>(1,787)</b>	<b>(96,950)</b>	<b>(12,316)</b>

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

**Telson Mining Corporation**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(Expressed in thousands of Canadian dollars)

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash (used in) provided by:</b>		
<b>Operating activities:</b>		
Income (loss) for the period	\$ 3,802	\$ (1,767)
Items not involving cash:		
Depreciation and amortization	120	109
Accretion for site reclamation and closure	115	103
Amortization of right-of-use assets	5	43
Share-based compensation	482	–
Amortization of deferred financing costs	136	–
Accrued interest on debt	298	398
Revaluation of marketable securities	196	(141)
Changes in non-cash working capital:		
Accounts receivable and other assets	(898)	(140)
Prepaid expenses and deposits	(287)	363
Inventories	(187)	(1,141)
Accounts payable and accrued liabilities	(2,713)	1,405
<b>Cash provided by (used in) operating activities</b>	<b>1,069</b>	<b>(768)</b>
<b>Investing activities:</b>		
Plant and equipment, net	(72)	–
Mineral interest and development assets additions	(292)	(855)
<b>Cash used in investing activities</b>	<b>(364)</b>	<b>(855)</b>
<b>Financing activities:</b>		
Shares issued on private placement, net of issuance costs	9,602	–
Share subscriptions received in advance	–	1,151
Interest paid	(62)	–
Proceeds in connection to warrants and/or stock options exercised	377	–
Repayment of right of use liabilities	(105)	(39)
<b>Cash provided by financing activities</b>	<b>9,812</b>	<b>1,112</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>18</b>	<b>608</b>
<b>Increase in cash</b>	<b>10,535</b>	<b>97</b>
<b>Cash, beginning of the period</b>	<b>257</b>	<b>145</b>
<b>Cash, end of the period</b>	<b>\$ 10,792</b>	<b>\$ 242</b>

Supplemental cash flow information (note 14)

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

# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

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## 1. NATURE OF OPERATIONS AND GOING CONCERN

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

### a) Going concern

The Company’s principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project (Note 7). Effective May 16, 2018 the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the “Accendo Syndicate”) to provide up to US\$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes (note 20). Notwithstanding, subsequent to completing the financing with the Accendo Syndicate and placing Tahuehueto into commercial production there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. These conditions may cast significant doubt upon the Company’s ability to continue as a going concern. The Company has a working capital deficit as at March 31, 2021 of \$45,881 (December 31, 2020 - \$60,334) and an accumulated deficit of \$96,950 (December 31, 2020 - \$100,752). These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

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

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 26, 2021.

### (b) Basis of presentation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant

# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

## 2. BASIS OF PRESENTATION (continued)

### (b) Basis of presentation (continued)

to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2020. However, this interim financial report provides selected significant disclosures that are required in the annual audited consolidated financial statements under IFRS.

Except as described below, these condensed interim consolidated financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements for the year ended December 31, 2020. The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2021.

### (c) Functional and presentation currency

The presentation currency of the Company's financial statements is the Canadian dollar; therefore, references to \$ means Canadian dollars, US\$ are to US dollars and MXN\$ to Mexican pesos.

### (d) Critical accounting estimates and judgments

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

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

The accounting judgements and estimates which have the most significant effect on these condensed interim consolidated financial statements were the same as those applied to the audited consolidated financial statements as at the period ended December 31, 2020.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements do not include all note disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the annual financial statements for the year ended December 31, 2020. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

## 4. MARKETABLE SECURITIES

		<b>Amount</b>
Balance, December 31, 2019	\$	<b>4,653</b>
Redemption of marketable securities		(657)
Realized and unrealized gain		610
Foreign exchange movement		(335)
Balance, December 31, 2020	\$	<b>4,271</b>
Realized and unrealized gain		(195)
Foreign exchange movement		(189)
<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>3,887</b>



# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

## 4. MARKETABLE SECURITIES (continued)

The Company holds senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at March 31, 2021 and are therefore classified as level 1 within the fair value hierarchy with an interest rate of 11% per annum, payable every six months. The investments are held in Mexico and their maturity date is in August 2023.

## 5. ACCOUNTS RECEIVABLE

	March 31, 2021	December 31, 2020
Trade receivables	\$ 1,122	\$ 241
Value added taxes and other taxes receivable	29	37
Other receivables	351	321
<b>Total accounts receivable</b>	<b>\$ 1,502</b>	<b>\$ 599</b>

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

During the period ended March 31, 2021, the Company presented valued added taxes receivable in Mexico as long term based on the expected timing of realization. As at March 31, 2021 the Company has \$5,030 (December 31, 2020 – \$5,056) in valued added taxes receivable included in other assets.

## 6. INVENTORIES

	March 31, 2021	December 31, 2020
Materials and supplies	\$ 4,784	\$ 4,593
Concentrates	542	884
Stock pile ore	601	503
<b>Total inventories</b>	<b>\$ 5,927</b>	<b>\$ 5,980</b>

## 7. MINERAL INTEREST AND DEVELOPMENT ASSETS

### a) Tahuehueto mining project

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

Pursuant to the Real Agreement, the Company is obligated to make final payments in the amount of \$253 (December 31, 2019 – \$255 (US\$200,000)) to some of the Real de la Bufa's shareholders.

On April 26, 2016, the Company signed an agreement with the local community and extended the surface access rights for 30 years. Under the terms of the agreement, the Company is obligated to make equal recurring yearly payments in the amount of \$59 (US\$46,540) which increase by a rate of 5% compounded annually.

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

# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

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

### b) Campo Morado mine

On June 13, 2017, the Company completed a definitive share purchase agreement (the “Campo Morado Agreement”) with Nyrstar Mining Ltd. and Nyrstar Mexico Resources Corp. (collectively “Nyrstar”) to purchase all the shares of Nyrstar’s Mexican subsidiary companies that make up and own 100% of the Campo Morado mine (“Campo Morado”), located in Guerrero State, Mexico.

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

The Campo Morado project is subject to a royalty between 2% and 3% of the net value of sales over the minerals extracted during the term of existence of the mining concession to the Servicio Geológico Mexicano (“SGM”).

As part of the Campo Morado Agreement, the seller retained the right to receive a variable purchase price on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado mine when the price of zinc is at or above US\$2,100 per tonne. This was accounted for as contingent consideration (note 9). Telson shall pay Nyrstar the greater of either:

- a) US\$20 per tonne of zinc sold if the zinc price received is over US\$2,100 per tonne; or
- b) a percentage that ranges between 0.5% and 4.25% of the net smelter revenues received from zinc when the price of zinc ranges between US\$1,200 and US\$2,500 from the Campo Morado mine.

The Company maintains the right under the Campo Morado Agreement to purchase 100% of the variable purchase price at any time for US\$4 million; subsequently on April 26, 2021, the Company exercised this option and settled this obligation (note 20 (c)).

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

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

	<b>Tahuehueto</b>
Balance as at December 31, 2020	<b>\$ 16,585</b>
<b>Costs incurred:</b>	
Depreciation capitalized	273
Assaying, data, and maps	1
Camp cost, equipment, and field supplies	43
Fuel and consumables	6
Supplies, lubricants and other	5
Project general and office expenses	66
Permitting, environmental and community costs	3
Salaries and wages	26
Share-based compensation	53
Travel and accommodation	4
Interest capitalized, net	426
Total additions for the year	906
Foreign currency movement	(213)
<b>Balance, March 31, 2021</b>	<b>\$ 17,278</b>

# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

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

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

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

Included in mineral interest and development assets is \$426 (December 31, 2020 - \$2,837) of capitalized borrowing costs based on a capitalization rate of 100%.

# Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2021 and 2020

## 8. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Right of use assets (Note 11)	Total
<b>Cost</b>						
Balance, December 31, 2019	\$ 3,300	\$ 2,228	\$ 11,087	\$ 3,535	\$ 3,004	\$ 23,154
Additions	-	72	160	1	271	504
Transfers	-	2182	-2182	-	-	-
Dispositions	-	-	(39)	-	(1,669)	(1,708)
Balance, December 31, 2020	\$ 3,300	\$ 4,482	\$ 9,026	\$ 3,536	\$ 1,606	\$ 21,950
Additions	-	-	49	23	-	72
<b>Balance March 31, 2021</b>	<b>\$ 3,300</b>	<b>\$ 4,482</b>	<b>\$ 9,075</b>	<b>\$ 3,559</b>	<b>\$ 1,606</b>	<b>\$ 22,022</b>
<b>Accumulated amortization</b>						
Balance, December 31, 2019	\$ -	\$ 253	\$ 1,477	\$ -	\$ 662	\$ 2,392
Amortization for the period	-	113	1,202	-	323	1,638
Transfers	-	104	(104)	-	-	-
Dispositions	-	-	(24)	-	(440)	(464)
Balance, December 31, 2020	\$ -	\$ 470	\$ 2,551	\$ -	\$ 545	\$ 3,566
Amortization for the period	-	46	291	-	63	400
<b>Balance March 31, 2021</b>	<b>\$ -</b>	<b>\$ 516</b>	<b>\$ 2,842</b>	<b>\$ -</b>	<b>\$ 608</b>	<b>\$ 3,966</b>
<b>Foreign currency movement</b>						
Balance, December 31, 2020	(118)	47	(1,180)	(131)	61	(1,321)
Balance March 31, 2021	(157)	326	(1,604)	(173)	55	(1,553)
<b>Net book value</b>						
Balance, December 31, 2020	\$ 3,182	\$ 4,059	\$ 5,295	\$ 3,405	\$ 1,122	\$ 17,063
Balance March 31, 2021	\$ 3,143	\$ 4,292	\$ 4,629	\$ 3,386	\$ 1,053	\$ 16,503

# Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2021 and 2020

## 9. DUE TO NYRSTAR MINING LTD.

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

	Consideration payable due to acquisition		Contingent consideration (Note 7(b))		Total
Balance, December 31, 2019	\$	8,042	\$	3,863	\$ 11,905
Accrued interest		1,061		-	1,061
Change in fair value of contingent consideration		-		1,307	1,307
Foreign exchange adjustment		(212)		(76)	(288)
Balance, December 31, 2020	\$	8,891	\$	5,094	\$ 13,985
Accrued interest		223		-	223
Foreign exchange adjustment		(111)		(63)	(174)
<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>9,003</b>	<b>\$</b>	<b>5,031</b>	<b>\$ 14,034</b>

	Consideration payable due to acquisition		Contingent consideration (Note 7(b))		Total
Current portion	\$	9,003	\$	5,031	\$ 14,034
Long term portion		-		-	-
<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>9,003</b>	<b>\$</b>	<b>5,031</b>	<b>\$ 14,034</b>

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

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

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

- Telson agreed to pay on or before November 23, 2018 an amount of US\$500,000 as principal repayment plus any accrued interest. (Paid)
- Telson will make monthly principal repayments of US\$500,000 on the 13th day of each month starting on December 13, 2018 and up until October 2019, plus any accrued interest
- The interest rate did not change and was kept at a fixed rate of 10% per annum and 12% for any amounts overdue
- Along with the monthly principal repayments mentioned above, Telson will also pay:

# Telson Mining Corporation

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## 9. DUE TO NYRSTAR MINING LTD. (continued)

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

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

During June 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.

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 the consent of Trafigura Mexico, S.A. de C.V. ("Trafigura") is consent, has agreed to accept Nyrstar into the Trust, thereby granting full security to Nyrstar, subordinate to Trafigura, and new secured lender(s) that may provide debt funding that fund the final Tahuehueto mine construction costs.

The Nyrstar Letter Agreement further provides,

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

The Company is working on restructure the terms of the Nyrstar loan some time before the end of Q2-2021. There is no assurance the Company will be successful in reaching new commercial terms on this credit facility.

On April 26, 2021, the Company exercised the option to buy back the variable purchase price obligation also refer to as the contingent consideration. Please refer to note 20 c).

# Telson Mining Corporation

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## 10. SHORT AND LONG-TERM DEBT

### a) Line of Credit

On July 22, 2016, the Company entered into an agreement with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. (“Escorfin”), for a line of credit for up to \$9.2 million (MXN\$150 million) (the “LOC”). The funds from the LOC were used towards the Company’s investment plan established in its completed Internal Scoping Study. The funds drawn down under the LOC accrue interest at a rate of 15% per year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum.

The Company has drawn down from its LOC a total amount of \$2.8 million (MXN\$46 million) primarily to further its Tahuehueto project. The continuity of the outstanding LOC balance is as follows:

		<b>Amount</b>
Balance, December 31, 2019	\$	3,892
Accrued interest		436
Foreign exchange adjustment		(201)
Balance, December 31, 2020	\$	4,127
Accrued interest		105
Foreign exchange adjustment		(115)
<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>4,117</b>

	<b>March 31, 2021</b>		<b>December 31, 2020</b>	
Current portion	\$	4,117	\$	4,127
Long term portion		-		-
<b>Balance</b>	<b>\$</b>	<b>4,117</b>	<b>\$</b>	<b>4,127</b>

As a result of the Company not being able to meet its contractual obligations, the Company is in default on the LOC balance which is presented within current liabilities. The Company is working with Escorfin to restructure the terms of the LOC, please refer to note 20 b) for additional details on the debt restructure.

### b) Loan Facility Campo

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

# Telson Mining Corporation

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

### b) Loan Facility Campo (continued)

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

	<b>Amount</b>
Balance, December 31, 2019	\$ 4,565
Accrued interest	621
Foreign exchange adjustment	(173)
Balance, December 31, 2020	\$ 5,013
Accrued interest	65
Foreign exchange adjustment	(59)
<b>Balance, March 31, 2021</b>	<b>\$ 5,019</b>

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Current portion	\$ 5,019	\$ 5,013
Long term portion	-	-
<b>Balance</b>	<b>\$ 5,019</b>	<b>\$ 5,013</b>

### c) Loan Facility Real

On December 7, 2017, the Company entered into a loan agreement (“Loan Agreement Real”) with Trafigura Mexico, S.A. de C.V. in the amount of US\$15 million for financing working capital, rehabilitation and operation of the Tahuehueto mining project. The Loan Facility is available in three tranches, the first tranche equivalent to US\$7.5 million was received upon signing of the agreement. The second tranche equal to US\$5 million was received on November 6, 2018. The third tranche for US\$2.5 million was available in nine months after the signing of the agreement but shall not pass nine months after the signing of the agreement subject to securing additional funding of US\$2.5 million in the form of equity and/or a loan and at least US\$2 million of these funds are invested on capital expenditures. The loan bears interest at an effective annual rate equivalent to LIBOR (1 year) plus 6%, it has a three-year term with a twelve-month grace period followed by twenty-four repayments. In connection to the loan agreement the Company’s subsidiary Real de la Bufa, S.A. de C.V., also entered into an Offtake agreement with Trafigura., (“Offtake Agreement Real”) in which the Company will sell all its zinc and lead concentrates for a sixty-month term, starting January 2018.

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



# Telson Mining Corporation

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

### c) Loan Facility Real (continued)

		<b>Amount</b>
Balance, December 31, 2019	\$	16,497
Accrued interest		1,118
Foreign exchange adjustment		769
Balance, December 31, 2020	\$	18,384
Accrued interest		288
Foreign exchange adjustment		(65)
<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>18,607</b>

		<b>March 31, 2021</b>		<b>December 31, 2020</b>
Current portion	\$	18,607	\$	18,384
Long term portion		-		-
<b>Balance</b>	<b>\$</b>	<b>18,607</b>	<b>\$</b>	<b>18,384</b>

### d) Trafigura Waiver Agreement

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

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

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

Material terms of the Waiver Agreement are as follows:

- 1) Trafigura has provided their approval and consent to allow 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 Agreements obligations to Trafigura.
- 3) Trafigura agrees to restructure the entire Loan Agreements obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm the projects financial viability, if
  - a. The Tahuehueto mining project is ramped up or,
  - b. Telson successfully raises funding in sufficient amounts to fully fund the final construction and ramp up of the Tahuehueto mining project, which funding amount and requirements for effective ramp up, to be independently verified by a mutually acceptable independent engineering consultant.

# Telson Mining Corporation

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

### d) Trafigura Waiver Agreement (continued)

- c. And subject to the fulfillment of the milestones outlined in section 7 below.
- 4) Telson agrees to undertake to conduct a process to market assets for potential sale (the "Transaction") in amounts to repay its Loan Agreements to Trafigura.
- 5) Telson will transfer all its assets in the Campo Morado and Tahuehueto mining projects to a trustee of the Trust Agreement (the "Trust") in order to secure the full repayment of the Loan Agreements. Should 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.
- 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 Agreements 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 Waiver 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 issued to Trafigura 12,000,00 share purchase warrants exercisable into one common share per share purchase warrant at an exercise price of \$0.175 per share over a term of 36 months. If any of the Campo Morado mine or Tahuehueto mining project are sold and Telson repays its total debt under the Loan Agreements within the timeline proposed the share purchase warrants will expire and thereby be canceled. The fair value of these warrants is \$2,492.

On November 12, 2020, the Company executed the Trust with Trafigura as mandated under the terms of the Waiver Agreement.

Subsequently, on February 23, 2021, the Company, has executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the "Accendo Syndicate") to provide up to US\$25 million of financing (collectively the "Financing") to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. Also, Telson, the Accendo Syndicate and Trafigura have executed a memorandum of understanding ("MOU") that provides a non-binding

# Telson Mining Corporation

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

### d) Trafigura Waiver Agreement (continued)

framework with terms to be used by the parties to negotiate the potential entry into the definitive agreements of the proposed transactions including, the potential restructuring of Telson's debt obligations to Trafigura and Nyrstar. The MOU includes an exclusivity period of 45 days after which if definitive agreements are not finalized it shall, unless mutually extended, be terminated and remain with no effect. Due to the fact that the negotiation has been delayed, an extension was granted until May 31, 2021.

### e) Accendo Loan

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

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

- Loan facility amount - US\$12 million
- Repayment term - 3 years with a one-year grace period on principal
- Repayable in 24 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- Telson issued, 15 million bonus warrants at an exercise price of \$0.09 per share for a period of 48 months. The bonus warrants were issued in lieu of a work fee but subject to cancellation if the loan facility does not close. The bonus warrants were fair valued using the Black-Scholes option pricing model and their value is \$1,628 which was recorded in other assets. The assumption used for determining the fair value of the warrants were risk-free interest rate 0.33%, expected dividend yield \$nil, stock price volatility 128% and expected life in years of 4. The unamortized balance at March 31, 2021 is \$1,219 (December 31, 2020 is \$1,354).
- The loan facility is subject to final due diligence of Accendo

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

	<b>Amount</b>
Balance, December 31, 2019	\$ -
Loan	655
Accrued interest	46
Interest Paid	(25)
Foreign exchange adjustment	(19)
Balance, December 31, 2020	\$ 657
Accrued interest	21
Interest paid	(41)
Foreign exchange adjustment	(8)
<b>Balance, March 31, 2021</b>	<b>\$ 629</b>

# Telson Mining Corporation

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

### e) Accendo Loan (continued)

	March 31, 2021	December 31, 2020
Current portion	\$ 84	\$ 126
Long term portion	545	531
<b>Balance</b>	<b>\$ 629</b>	<b>\$ 657</b>

## 11. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Telson's leases are mainly real estate leases for office space.

The Company leases office space for its corporate offices located in Vancouver, BC, Canada and Mexico City. As at March 31, 2021 the Company recorded \$1,490 (December 31, 2020 \$1,621), of lease liability. The incremental borrowing annual rate for lease liability initially recognized as of January 1, 2019 was 8% to 15%.

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

	Amount
Balance lease liabilities, December 31, 2019	\$ 1,927
New leases	303
Cancelation of leases	(160)
Lease payments	(359)
Interest expense	102
Interest paid	(102)
Foreign exchange adjustment	(90)
Balance lease liabilities, December 31, 2020	<b>\$ 1,621</b>
Lease payments	(97)
Interest expense	22
Interest paid	(20)
Foreign exchange adjustment	(36)
<b>Balance, March 31, 2021</b>	<b>\$ 1,490</b>

	March 31, 2021	December 31, 2020
Current portion	\$ 1,072	\$ 1,355
Long term portion	418	266
<b>Balance</b>	<b>\$ 1,490</b>	<b>\$ 1,621</b>

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

	Amount
2021	\$ 986
2022	354
2023	118
2024	62
Thereafter	42
Total minimum lease payments	1,562
Present value of minimum lease payments	(72)
<b>Lease obligations, March 31, 2021</b>	<b>\$ 1,490</b>

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

	Machinery & equipment	Offices	Vehicles	Right of use assets (Note 8)
<b>Cost</b>				
Balance, December 31, 2019	\$ 2,315	\$ 536	\$ 153	\$ 3,004
Additions	-	271	-	271
Dispositions	(1,384)	(285)	-	(1,669)
<b>Balance, March 31, 2021 and December 31, 2020</b>	<b>\$ 931</b>	<b>\$ 522</b>	<b>\$ 153</b>	<b>\$ 1,606</b>
<b>Accumulated amortization</b>				
Balance, December 31, 2019	\$ 474	\$ 142	\$ 46	\$ 662
Additions	176	106	41	323
Dispositions	(334)	(106)	-	(440)
Balance, December 31, 2020	\$ 316	\$ 142	\$ 87	\$ 545
Additions	28	25	10	63
<b>Balance, March 31, 2021</b>	<b>\$ 344</b>	<b>\$ 167</b>	<b>\$ 97</b>	<b>\$ 608</b>
<b>Foreign currency movement</b>				
Balance, December 31, 2020	86	(17)	(8)	61
Balance, March 31, 2021	86	(20)	(11)	55
<b>Net book value</b>				
<b>Balance, December 31, 2020</b>	<b>\$ 701</b>	<b>\$ 363</b>	<b>\$ 58</b>	<b>\$ 1,122</b>
<b>Balance, March 31, 2021</b>	<b>\$ 673</b>	<b>\$ 335</b>	<b>\$ 45</b>	<b>\$ 1,053</b>

The Company does not face a significant liquidity risk with regard to its lease liability. Lease liability is monitored within the Company treasury function. The lease liability matures in 2025.

## 12. SHARE CAPITAL

Common share transactions:

Period ended March 31, 2021

- i. On March 30, 2021, the Company closed non-brokered private placement for gross proceeds of \$10,080. The Company issued 50,400,000 units (each, a "Unit") of the Company at a price of \$0.20 per Unit for aggregate gross proceeds of \$10,080. Each Unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one additional Common Share of the Company at a price of \$0.30 per Common Share within 24 months from March 29, 2021 (the "Closing Date"). All securities issued under the Private Placement are subject to a hold period expiring four months and one day after the Closing Date.

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

# Telson Mining Corporation

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## 12. SHARE CAPITAL (continued)

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

- ii. During the period ended March 31, 2021, the Company issued 2,903,335 common shares for gross proceeds of \$377 in connection with stock options exercised. The fair value of the options exercised was \$377 and was transferred from the equity reserves and recorded against share capital.

Period ended March 31, 2020

- i. On February 4, 2020, the Company closed the first tranche of a non-brokered private placement offering, whereby gross proceeds of \$1,946 were raised by the issuance of 19,458,442 units at a price of \$0.10 per unit. Each unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four (24) months from closing. The fair value of the warrants is \$10.

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

## 13. EQUITY RESERVES

### a) Share-based compensation

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

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

	<b>Number of stock options</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2019	9,567,166	0.39
Granted	350,000	0.19
Exercised	(75,000)	0.13
Cancelled	(1,150,000)	0.41
Outstanding, December 31, 2020	8,692,166	0.39
Granted	6,650,000	0.29
Exercised	(2,903,335)	0.13
Cancelled	(2,845,498)	0.13
<b>Outstanding, March 31, 2021</b>	<b>9,593,333</b>	<b>0.41</b>

The weighted average share price at the date of exercise of the options exercised was \$0.20. On March 22, 2021, a total of 1,266,667 stock options expired without being exercised.

As at March 31, 2021 and December 31, 2020, the number of stock options outstanding and exercisable were:

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## 13. EQUITY RESERVES (continued)

Expiry date	Outstanding		Exercisable	
	Number of options	Exercise price	Remaining contractual life (years)	Number of options
November 11, 2022	2,393,333	\$ 0.71	1.62	2,393,333
April 16, 2023	400,000	0.77	2.04	400,000
April 23, 2023	50,000	0.72	2.06	50,000
August 6, 2025	100,000	0.20	4.35	66,000
January 29, 2025	200,000	0.20	3.84	66,000
February 8, 2025	250,000	0.20	3.86	82,500
February 2, 2023	300,000	0.30	1.84	99,000
February 25, 2026	5,600,000	0.30	4.91	1,848,000
March 16, 2023	300,000	0.30	1.96	99,000
<b>Outstanding, March 31, 2021</b>	<b>9,593,333</b>			<b>5,103,833</b>

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

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees, and others providing similar services. During the period ended March 31, 2021 an amount of \$233 (March 31, 2020 – \$nil) was expensed as share-based compensation. The portion of share-based compensation recorded is based on the vesting schedule of the options.

On February 26, 2021, the Company granted stock options to certain directors, officers, and insiders of up to an aggregate 4,700,000 shares in the capital stock of the Company. The options are exercisable on or before February 25, 2026 at a price of \$0.30 per share. The Company also re-priced 1,853,333 stock options originally granted as to; 1,403,333 exercisable at \$0.71 till November 10, 2022, 400,000 exercisable at \$0.72 till April 16, 2023 and 50,000 exercisable at \$0.71 till April 23, 2023. These stock options have been repriced to \$0.30 per share and expiry dates remain unchanged. The grant and repricing of the above options are subject to the acceptance of the TSX Venture Exchange and in the case of repricing options held by insiders subject to disinterested shareholder approval. The fair value of the stock options granted during the period ended March 31, 2021 and 2020, were estimated at \$1,278 and \$nil respectively using the Black-Scholes option valuation model with the following weighted average assumptions:

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## 13. EQUITY RESERVES (continued)

	2021	2020
Risk-free interest rate	0.60%	0.36%
Expected forfeiture rate	Nil	Nil
Stock price volatility	117%	108%
Expected life (in years)	4.91	4.65

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

### b) Share purchase warrants

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

	Warrants outstanding	Exercise price
Outstanding, December 31, 2019	4,562,401	\$1.25
Issued	44,890,909	0.16
Expired	(4,562,401)	1.25
Outstanding, December 31, 2020	44,890,909	0.16
Issued	25,200,000	0.30
<b>Outstanding, March 31, 2021</b>	<b>70,090,909</b>	<b>\$0.21</b>

Outstanding			
Expiry date	Granted	Exercise price	Remaining contractual life (years)
February 4, 2022	9,729,221	\$ 0.25	0.8
May 27, 2022	1,163,615	0.25	1.2
July 9, 2022	6,998,073	0.15	1.3
June 30, 2024	25,200,000	0.30	2.0
October 16, 2023	12,000,000	0.18	2.5
March 30, 2023	15,000,000	0.30	3.3
	<b>70,090,909</b>	<b>\$ 0.21</b>	



# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2021	2020
Accounts payable and accrued liabilities included in mineral interest and development assets	\$ (116)	\$ 4,789
Interest of long-term debt capitalized as mineral interest and development assets	415	453
Depreciation capitalized as mineral interest and development assets	248	129
Right of use of assets amortization capitalized	5	88
Fair value of stock options exercised	377	-

  

	Three months ended March 31,	
	2021	2020
Interest paid (note 9 and 10)	\$ 61	\$ -
Income taxes paid	\$ -	\$ -

## 15. LOSS PER SHARE

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

	Three months ended March 31,	
	2021	2020
Income (Loss) attributable to common shareholders	\$ 3,802	\$ (1,767)
Weighted average number of shares basic	183,119,346	151,553,578
Weighted average number of shares diluted	263,053,587	151,553,578
Basic earnings (loss) per share	\$ 0.02	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.01	\$ (0.01)

The Company incurred a net loss for the period ended on March 31, 2021 and the year ended December 31, 2020, therefore all outstanding stock options and share purchase warrants have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

## 16. RELATED PARTY BALANCES AND TRANSACTIONS

- a) Compensation of key management personnel:

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

	Three months ended March 31,	
	2021	2020
Short-term benefits	\$ 140	\$ 195
Share-based compensation	222	-
	\$ 362	\$ 195

# Telson Mining Corporation

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For the three months ended March 31, 2021 and 2020

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

### a) Compensation of key management personnel: (continued)

Related party balances:

As at March 31, 2021, directors and officers or their related companies were owed \$129 (December 31, 2020 – \$615) included in accounts payable and accrued liabilities mainly in respect to reimbursement of expenses and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

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

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin (Note 10 a). Escorfin is a private equity fund that specialize in real estate development, energy innovations, and tourism investment in Mexico.

The following summarizes the transactions and balances owing to Escorfin as at March 31, 2021.

	March 31, 2021	December 31, 2020
Current portion of the debt	\$ 4,117	\$ 4,127
Long term portion of the debt	-	-
<b>Balance</b>	<b>\$ 4,117</b>	<b>\$ 4,127</b>

During the three months ended March 31, 2021, the Company incurred interest in the amount of \$105 (March 31, 2020 – \$113) of which \$nil was paid (March 31, 2020 – \$nil).

Escorfin acquired the following Units in the private placement:

March 30, 2021, private placement 500,000 Units (February 4, 2020 – 5,853,796 units).

## 17. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

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

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

Marketable securities are classified as level one and recorded at fair value using quoted market prices. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, obligation under share purchase agreement, and due to Nyrstar Mining Ltd. approximated their fair value because of the short-term nature of these instruments. The fair values of the Company’s long-term debt approximated their carrying value as their interest rates are comparable to market interest rates.

# Telson Mining Corporation

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

For the three months ended March 31, 2021 and 2020

## 17. FINANCIAL INSTRUMENTS (continued)

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

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

### a) Credit risk

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

### b) Liquidity risk

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

### c) Market risk

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

#### i) Foreign currency risk

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

	Amounts		Amounts	
	US Dollars		Mexican Peso	
Financial assets denominated in foreign currencies	\$	5,538,414	\$	115,232,749
Financial liabilities denominated in foreign currencies		(39,262,302)		(508,649,110)
<b>Net exposure</b>	\$	(33,723,888)	\$	(393,416,361)

# Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three months ended March 31, 2021 and 2020

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## 17. FINANCIAL INSTRUMENTS (continued)

### c) Market risk (continued)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$1,431.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$243.

### ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At March 31, 2021 and December 31, 2020, the Company's long-term debt are at fixed and floating rates and the Company has not entered, into any financial derivatives or other financial instruments to hedge against this risk. The Company's loan agreements bear interest at variable and fixed rates. Interest risk exposure is in relation to variable interest rates such as LIBOR (3M) and (1 year) rates and a variation of 1% on the interest rate would change comprehensive loss by approximately \$192. Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

### d) Commodity price risk

The Company is exposed to commodity and equity price risk given its revenue is derived from the sale of metal concentrates, the prices for which have been historically volatile. Consequently, the economic viability of the Company's mineral interest and development assets may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced at the period ended March 31, 2021 and the year ended December 31, 2020, a 1% change in zinc and lead prices would result in an increase/decrease of approximately \$24 and \$25 respectively in revenues and pre-production sales (note 7).

## 18. CAPITAL RISK MANAGEMENT

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

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

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

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

# Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
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For the three months ended March 31, 2021 and 2020

## 18. CAPITAL RISK MANAGEMENT (continued)

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

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

The Company is not subject to externally imposed capital requirements.

## 19. SEGMENTED INFORMATION

The Company is engaged in mining, exploration, and development of mineral properties in Mexico. The Company operates in one industry and has four operating segments. The operating segments are managed separately based on the nature of operations. Mining operations consists of the Campo Morado mine, which is currently operational and producing, and development stage asset for the Tahuehueto mining project.

Information by geographical areas is as follows:

	Canada		Mexico		Total
Current assets	\$	10,672	\$	13,423	\$ 24,095
Non-current assets					
Mineral interest and development assets		-		17,278	17,278
Property, plant, and equipment		-		16,503	16,503
Other assets and long term accounts receivable		1,219		5,030	6,249
<b>Total assets, March 31, 2021</b>	<b>\$</b>	<b>11,891</b>	<b>\$</b>	<b>52,234</b>	<b>\$ 64,125</b>
Current liabilities	\$	15,443	\$	54,533	\$ 69,976
Non-current liabilities		78		6,387	6,465
<b>Total liabilities, March 31, 2021</b>	<b>\$</b>	<b>15,521</b>	<b>\$</b>	<b>60,920</b>	<b>\$ 76,441</b>

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

# Telson Mining Corporation

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## 19. SEGMENTED INFORMATION (continued)

During the period ended March 31, 2021 and 2020, the Company sold its commercial and pre-commercial production to one customer accounting for 100% of revenues and pre-commercial sales. As at March 31, 2020 trade receivables of \$1,122 (December 31, 2020 – \$241) were receivable entirely from this one customer. Revenues and pre-commercial sales all were earned within Mexico.

Operating segments are as follows:

March 31, 2021	Campo	Real de la	Other	Telson	Total
	Morado	Bufo		Mining	
	Mexico	Mexico	Mexico	Canada	
Revenue, net	\$ 13,735	\$ -	\$ -	\$ -	\$ 13,735
Production costs and royalties	(8,318)	-	-	-	(8,318)
Accretion of provision for site reclamation and closure	(108)	-	-	-	(108)
Depletion and amortization	(120)	-	-	-	(120)
Mine operating earnings	5,189	-	-	-	5,189
General expenses	(501)	(46)	-	(802)	(1,349)
Other income (expenses)	(485)	527	(123)	43	(38)
<b>Net income (loss) for the period</b>	<b>\$ 4,203</b>	<b>\$ 481</b>	<b>\$ (123)</b>	<b>\$ (759)</b>	<b>\$ 3,802</b>

March 31, 2020	Campo	Real de la	Other	Telson	Total
	Morado	Bufo		Mining	
	Mexico	Mexico	Mexico	Canada	
Revenue, net	\$ 3,542	\$ -	\$ -	\$ -	\$ 3,542
Production costs and royalties	(3,370)	-	-	-	(3,370)
Accretion of provision for site reclamation and closure	-	-	-	-	-
Depletion and amortization	(109)	-	-	-	(109)
Mine operating earnings	63	-	-	-	63
General expenses	(1,112)	(83)	-	(380)	(1,575)
Other income (expenses)	2,093	162	(342)	(2,168)	(255)
<b>Net income (loss) for the period</b>	<b>\$ 1,044</b>	<b>\$ 79</b>	<b>\$ (342)</b>	<b>\$ (2,548)</b>	<b>\$ (1,767)</b>

## 20. SUBSEQUENT EVENTS

- a) On April 15, 2021, the Company entered into a royalty silver stream agreement with Empress Royalty Corp (“Empress”). Under the terms of the stream agreement, Telson will deliver to Empress silver credits purchased from a bullion bank in an amount equivalent to 100% of the first 1,250,000 ounces of payable silver contained within produced lead and zinc concentrates at Tahuehueto project; thereafter, the Stream percentage silver credit delivery will step down to 20% of the payable silver from produced lead and zinc concentrates. All streaming obligations will fully terminate after 10 years. Empress, to secure the stream advanced Telson an initial US\$2 million deposit and the remaining US\$3 million deposit will be advanced upon closing the Accendo Banco Medium Term Loan Facility.

# Telson Mining Corporation

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## 20. SUBSEQUENT EVENTS (continued)

- b) On April 22, 2021, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants in consideration for the debt restructuring. Each bonus warrants are exercisable within a period of four years at a price of \$0.475. Telson and Escorfin are working on the legal documentation to restructure the LOC which was originally issued under a Mexican Peso line of credit agreement dated July 22, 2016 (note 10 (a)). As disclosed, Telson has not being able to meet its contractual repayment obligations to Escorfin and therefore, is in default on the line of credit balance in the equivalent amount of approximately US\$3.1 million (MXP\$64.7 million) including principal and interest. The debt is proposed to be restructured by converting the Mexican Peso owing balance into US dollars at current exchange rates. The new restructured terms include interest at 10% per annum, with a 36-month term of repayment and a 12-month grace period on both principal and interest.
- c) On April 26, 2021, the Company executed an agreement with Nyrstar to settle the US\$4 million variable purchase price obligation under the Campo Morado Agreement with Nyrstar. As consideration it was agreed that the obligation was settled with 14,600,000 common shares of Telson valued at \$0.345 per common share.
- d) On May 19, 2021, the Company granted stock options to the newly appointed directors for an aggregate amount of 2,000,000 in accordance with the terms of the Company's stock option plan. These stock options are exercisable into one common share of the Company at an exercise price of \$0.45 per common share and for a period of five years. The stock options granted vest as to one third on the date of the grant, one third after six months and one third on the first-year anniversary; this represents a total vesting period of 12 months.