



ALTALEY MINING CORPORATION
(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2021 and 2020

UNAUDITED

(Expressed in thousands of Canadian dollars)

ALTALEY MINING CORPORATION

(Formerly Telson Mining Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of Altaley 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.

November 22, 2021

Altaley Mining Corporation (Formerly Telson Mining Corporation)
Condensed Interim Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	As at September 30, 2021	As at December 31, 2020
Assets		
Current assets:		
Cash	\$ 7,466	\$ 257
Restricted funds (Note 4)	4,046	–
Marketable securities (Note 5)	3,882	4,271
Accounts receivable (Note 6)	1,638	599
Prepaid expenses and deposits	3,554	1,759
Inventories (Note 7)	8,162	5,980
	28,748	12,866
Non-current assets:		
Mineral interest and development assets (Note 8)	21,165	16,585
Property, plant and equipment (Note 9)	23,547	17,063
Taxes receivable long-term (Note 6)	5,738	5,056
Other assets (Note 11)	2,067	1,354
	52,517	40,058
Total assets	\$ 81,265	\$ 52,924
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 18,990	\$ 29,955
Due to Nyrstar Mining Ltd (Note 8(b) and 10)	3,350	13,985
Short-term debt (Note 11)	8,536	27,650
Empress royalty stream (Note 12)	2,765	–
Current portion of lease liabilities (Note 13)	303	1,355
Obligation under share purchase agreement (Note 8(a))	255	255
	34,199	73,200
Non-current liabilities:		
Long-term debt (note 11)	28,658	531
Long-term due to Nyrstar Mining Ltd (Note 8(b) and 10)	3,206	–
Long-term Empress royalty stream (Note 12)	3,605	–
Lease liabilities (Note 13)	299	266
Provision for site reclamation and closure	5,837	5,638
	41,605	6,435
Total liabilities	\$ 75,804	\$ 79,635
Equity (deficiency)		
Share capital (Note 14)	\$ 79,920	\$ 65,317
Equity reserves (Note 15)	12,207	10,591
Accumulated other comprehensive loss	(1,569)	(1,867)
Deficit	(85,097)	(100,752)
Total equity (deficiency)	5,461	(26,711)
Total liabilities and equity (deficiency)	\$ 81,265	\$ 52,924

Going concern (Note 1)
Subsequent events (Note 21)

Approved by the Board of Directors on November 22, 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

Altaley Mining Corporation (Formerly 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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues				
Gross sales	\$ 23,076	\$ 11,148	\$ 68,781	\$ 25,483
Treatment and selling costs	(5,364)	(4,451)	(18,854)	(11,951)
	17,712	6,697	49,927	13,532
Cost of Sales				
Production cost	\$ 7,254	\$ 5,794	\$ 23,743	\$ 12,701
Royalties	644	231	1,663	462
Accretion of provision for site reclamation and closure	111	88	328	271
Depreciation and amortization (Note 9)	145	111	390	318
	8,154	6,224	26,124	13,752
Mine operating profit (loss)	9,558	473	23,803	(220)
General Expenses:				
Consulting fees, wages and benefits (Note 17)	\$ 524	\$ (464)	\$ 1,632	\$ 1,790
Legal and professional fees	231	89	579	220
Office, rent and administration	1,375	112	2,334	490
Amortization of right-of-use assets (Note 9 and 13)	33	55	60	110
Regulatory, transfer agent and shareholder information	24	(4)	43	17
Travel, promotion and investor relations	142	53	608	180
Share-based compensation (Note 15(a) and 17)	339	23	1,055	23
	2,668	(136)	6,311	2,830
Other expense (income):				
Interest income and other	\$ (212)	\$ 119	\$ (425)	\$ (247)
Accretion of provision for site reclamation and closure	7	8	22	24
Change in fair value of marketable securities (Note 5)	135	(54)	275	(521)
Interest expense and other	613	286	3,120	972
Other expenses (income)	1,912	–	(825)	–
Foreign exchange (gain)	151	(4,127)	(330)	(1,334)
	2,606	(3,768)	1,837	(1,106)
Net Income (loss) for the period	\$ 4,284	\$ 4,377	\$ 15,655	\$ (1,944)
Other comprehensive income (loss)				
Items that will be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment	281	(4,019)	298	(166)
Total items that may be reclassified subsequently to profit or (loss)	281	(4,019)	298	(166)
Total net comprehensive income (loss) for the period	\$ 4,565	\$ 358	\$ 15,953	\$ (2,110)
Weighted average number of common shares outstanding				
Basic	253,166,462	173,976,734	229,684,783	161,810,840
Diluted	286,989,017	173,976,734	261,907,338	161,810,840
Earnings (loss) per share				
Basic earnings (loss) per share	\$ 0.02	\$ 0.03	\$ 0.07	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.01	\$ 0.03	\$ 0.06	\$ (0.01)

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

Altaley Mining Corporation (Formerly Telson Mining Corporation)
Condensed Interim Consolidated Statements of Changes in Equity (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
Balance as at December 31, 2019	139,579,152	\$ 59,743	\$ 795	\$ 6,423	\$ (1,964)	\$ (89,128)	(24,131)
Subscriptions received in advance	–	–	1,543	–	–	–	1,543
Shares issued on private placement, net of issuance cost (Note 14)	35,420,577	3,484	(2,338)	–	–	–	1,146
Share-based compensation (Note 15)	–	–	–	23	–	–	23
Finder's fees (Note 14)	361,239	36	–	–	–	–	36
Fair value of warrants issued in private placements	–	(1,396)	–	1,396	–	–	–
Loss and comprehensive income for the period	–	–	–	–	(166)	(1,944)	(2,110)
Balance as at September 30, 2020	175,360,968	\$ 61,867	\$ –	\$ 7,842	\$ (2,130)	\$ (91,072)	(23,493)
Balance as at As at December 31, 2020	182,766,619	\$ 65,317	\$ –	\$ 10,591	\$ (1,867)	\$ (100,752)	(26,711)
Shares issued on private placement, net of issuance cost (Note 14)	50,400,000	9,574	–	–	–	–	9,574
Shares Issued upon settlement of obligations	14,600,000	2,920	–	–	–	–	2,920
Bonus shares and warrants issued on modification of debt (Note 11 and 14)	500,000	385	–	812	–	–	1,197
Stock options exercised (Note 14)	3,073,335	428	–	–	–	–	428
Fair value of stock options allocated to share capital issued on exercise (Note 14)	–	401	–	(401)	–	–	–
Warrants exercised (Note 14)	3,165,000	687	–	–	–	–	687
Fair value of warrants allocated to share capital issued on exercise (Note 14)	–	208	–	(208)	–	–	–
Share-based compensation (Note 15)	–	–	–	1,413	–	–	1,413
Income and comprehensive income for the period	–	–	–	–	298	15,655	15,953
Balance as at September 30, 2021	254,504,954	79,920	–	12,207	(1,569)	(85,097)	5,461

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cash (used in) provided by:				
Operating activities:				
Income (loss) for the period	\$ 4,284	\$ 4,377	\$ 15,655	\$ (1,944)
Items not involving cash:				
Depreciation and amortization	145	111	390	318
Accretion for site reclamation and closure	118	96	350	295
Amortization of right-of-use assets	33	55	60	110
Share-based compensation	367	23	1,311	23
Amortization of deferred financing costs	62	–	333	–
Accrued interest on debt	641	286	1,162	972
Revaluation of marketable securities	135	(54)	275	(521)
Gain on settlement of VPP	–	–	(2,125)	–
Income tax expense	–	–	–	–
Changes in non-cash working capital:				
Accounts receivable and other assets	1,617	(24)	(1,714)	12
Prepaid expenses and deposits	(1,161)	(1,383)	(1,840)	(1,734)
Inventories	(2,238)	(451)	(2,359)	1,314
Accounts payable and accrued liabilities	(4,470)	1,148	(9,767)	(921)
Cash (used in) provided by operating activities	(467)	4,184	1,731	(2,076)
Investing activities:				
Plant and equipment, net	(4,364)	(136)	(7,864)	(108)
Mineral interest and development assets additions	(353)	(762)	(2,690)	(2,114)
Redeemed marketable securities	–	239	–	685
Cash used in investing activities	(4,717)	(659)	(10,554)	(1,537)
Financing activities:				
Shares issued on private placement, net of issuance costs	(28)	1,183	9,574	2,726
Share subscriptions received in advance	–	–	–	–
Interest paid	(2,694)	(27)	(2,793)	(51)
Debt acquired	7,134	655	7,134	655
Proceeds in connection to warrants and/or stock options exercised	239	–	1,115	–
Empress royalty stream (Note 12)	3,891	–	6,370	–
Repayment of right of use liabilities	(120)	(309)	(304)	(315)
Repayment of debt	(1,170)	–	(1,170)	–
Cash provided by financing activities	7,252	1,502	19,926	3,015
Effect of foreign exchange rate changes on cash	536	(4,960)	152	1,182
Increase in cash	2,604	67	11,255	584
Cash, beginning of the period	8,908	662	257	145
Restricted funds (Note 4)	(4,046)	–	(4,046)	–
Cash, end of the period	\$ 7,466	\$ 729	\$ 7,466	\$ 729

Supplemental cash flow information (Note 16)

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

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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 8). Effective May 16, 2018, the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the “Accendo Syndicate”) to provide up to US\$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo’s banking license and started its liquidation. The Company has a US\$5.8 million balance to be drawn down from its executed Medium Term Loan Facility (“MTLF”) (Note 11 (c)) which is now impaired and was part of the total US\$25 million Accendo Syndicate financing. Notwithstanding, subsequent to completing the necessary financing to place Tahuehueto into commercial production, there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. 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 September 30, 2021 of \$5,451 (December 31, 2020 - \$60,334) and an accumulated deficit of \$85,097 (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 November 22, 2021.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

2. BASIS OF PRESENTATION (continued)

(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 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 United States 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 and nine months ended September 30, 2021, are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

4. RESTRICTED FUNDS

On September 28, 2021, the Company was notified that Accendo Banco, S.A. Institucion de Banca Multiple ("Accendo") was revoked by banking regulators in Mexico of its authorization to organize and operate as a multiple banking institution due to below the regulatory minimum levels of liquidity coverage ratio. As a result, Accendo began the liquidation process. As at September 30, 2021, the Company held \$4,046 in deposit accounts with Accendo, which have been classified as restricted funds. On September 29, 2021, Minas de Campo Morado, S.A. de C.V and Real de la Bufo, S.A. de C.V processed the required formal documentation to obtain guarantees from Bank Savings Protection Fund entitling each entity to an insured amount of an equivalent to MXN\$2,768,169.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

5. MARKETABLE SECURITIES

	Amount
Balance, December 31, 2019	\$ 4,653
Redemption of marketable securities	(657)
Realized and unrealized gain	610
Foreign exchange movement	(335)
Balance, December 31, 2020	\$ 4,271
Unrealized loss	(275)
Foreign exchange movement	(114)
Balance, September 30, 2021	\$ 3,882

The Company holds senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at September 30, 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 August 2023.

6. ACCOUNTS RECEIVABLE

	September 30, 2021	December 31, 2020
Trade receivables	\$ 1,150	\$ 241
Value added taxes and other taxes receivable	18	37
Other receivables	470	321
Total accounts receivable	\$ 1,638	\$ 599

The Company has a concentrate off-take agreement where the customer will purchase 100% of the metals concentrate produced at the Campo Morado and Tahuehueto mining properties.

During the period ended September 30, 2021, the Company disclosed as a long term receivable, value added taxes generated in Mexico based on the expected timing of realization. As at September 30, 2021 the Company has \$5,738 (December 31, 2020 – \$5,056) in valued added taxes receivable included in non-current assets.

7. INVENTORIES

	September 30, 2021	December 31, 2020
Materials and supplies	\$ 5,735	\$ 4,593
Concentrates	1,737	884
Stock pile ore	690	503
Total inventories	\$ 8,162	\$ 5,980

8. 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").

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

8. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

a) Tahuehueto mining project (continued)

Pursuant to the Real Agreement, the Company is obligated to make final payments in the amount of \$255 (December 31, 2020 – \$255 (US\$200,000)) to some of the Real de la Bufa's shareholders. On April 26, 2016, the Company signed an agreement with the local community and extended the surface access rights for 30 years. Under the terms of the agreement, the Company is obligated to make equal recurring annual payments in the amount of \$58 (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.

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 paid 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\$11.5 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 ("VPP") on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado mine when the price of zinc is at or above US\$2,100 per tonne. This was accounted for as contingent consideration (Note 10).

Effective April 13, 2021, the Company exercised its option to settle the US\$4 million VPP obligation under the Campo Morado Agreement. As consideration, it was agreed that the obligation was settled with 14,600,000 common shares of Altaley valued at \$0.345 per common share. The Company recorded a gain of \$2,125 which represents the difference between the fair value of common shares issued at \$2,920 and the \$5,045 contingent consideration settled with Nyrstar.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

8. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets

For the period ended September 30, 2021, and the year ended December 31, 2020, the Company capitalized the following acquisition and developments costs:

	Tahuehueto
Balance as at December 31, 2020	\$ 16,585
Costs incurred:	
Freight and related costs	156
Depreciation and amortization capitalized	1,013
Camp cost, equipment, and field supplies	573
Supplies, fuel, lubricants and other	135
Project general and office expenses	233
Permitting, environmental and community costs	205
Salaries and wages	345
Share-based compensation	104
Travel and accommodation	58
Interest capitalized, net	1,349
Total additions for the year	4,171
Foreign currency movement	409
Balance, September 30, 2021	\$ 21,165

	Tahuehueto
Balance as at December 31, 2019	\$ 12,335
Costs incurred:	
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
Supplies, fuel, lubricants and other	113
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)
Balance, December 31, 2020	\$ 16,585

Included in mineral interest and development assets is \$1,349 (December 31, 2020 – \$2,837) of capitalized borrowing costs based on a capitalization rate of 100%.

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Right of use assets (Note 13)	Total
Cost						
Balance, December 31, 2019	\$ 3,300	\$ 2,228	\$ 11,087	\$ 3,535	\$ 3,004	\$ 23,154
Additions	-	72	160	1	271	504
Transfers	-	2182	(2,182)	-	-	-
Dispositions	-	-	(39)	-	(1,669)	(1,708)
Balance, December 31, 2020	\$ 3,300	\$ 4,482	\$ 9,026	\$ 3,536	\$ 1,606	\$ 21,950
Additions	-	28	1,412	6,713	-	8,153
Change in estimate	-	-	-	-	9	9
Transfers	-	758	-	(758)	-	-
Dispositions	-	-	-	-	(249)	(249)
Balance September 30, 2021	\$ 3,300	\$ 5,268	\$ 10,438	\$ 9,491	\$ 1,366	\$ 29,863
Accumulated amortization						
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	-	227	1,037	-	234	1,498
Dispositions	-	-	-	-	(93)	(93)
Balance September 30, 2021	\$ -	\$ 697	\$ 3,588	\$ -	\$ 686	\$ 4,971
Foreign currency movement						
Balance, December 31, 2020	(118)	47	(1,180)	(131)	61	(1,321)
Balance September 30, 2021	(115)	46	(1,147)	(6)	(123)	(1,345)
Net book value						
Balance, December 31, 2020	\$ 3,182	\$ 4,059	\$ 5,295	\$ 3,405	\$ 1,122	\$ 17,063
Balance September 30, 2021	\$ 3,185	\$ 4,617	\$ 5,703	\$ 9,485	\$ 557	\$ 23,547

Altaley Mining Corporation (Formerly Telson Mining Corporation)

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and nine months ended September 30, 2021, and 2020

10. DUE TO NYRSTAR MINING LTD.

As at September 30, 2021 and December 31, 2020, the Company recorded the following amounts due to Nyrstar Mining Ltd:

	Consideration payable due to acquisition		Contingent consideration (Note 8(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 movement	(212)		(76)		(288)
Balance, December 31, 2020	\$ 8,891	\$	5,094	\$	13,985
Interest accrued	491		-		491
Repayment	(3,019)		-		(3,019)
VPP settled with common shares	-		(5,045)		(5,045)
Change in fair value of contingent consideration	-		1,597		1,597
Loss on loan modification	225		-		225
VPP settled with cash	-		(1,629)		(1,629)
Foreign exchange movement	(32)		(17)		(49)
Balance, September 30, 2021	\$ 6,556	\$	-	\$	6,556

	Consideration payable due to acquisition		Contingent consideration (Note 8(b))		Total
Current portion	\$ 3,350	\$	-	\$	3,350
Long term portion	3,206		-		3,206
Balance, September 30, 2021	\$ 6,556	\$	-	\$	6,556

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

On June 13, 2017, the Company acquired Campo Morado mine for a total purchase price of US\$20 million paid 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\$11.5 million paid).

On June 12, 2018, the Company renegotiated the terms for the remaining US\$8.5 million balance on the Campo Morado Agreement and entered into a loan agreement with Nyrstar ("Campo Morado Loan Agreement").

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10. DUE TO NYRSTAR MINING LTD. (continued)

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

Along with the monthly principal repayments mentioned above, Altaley will also pay at the end of each quarter once the grace period has ended, 70% of any excess cash above US\$7 million generated by Altaley on the Campo Morado mining project.

The above loan amendments resulted in a non-substantial modification of the obligation, with the terms outlined above. As a result of the amendment of terms, the Company recognized a loss on modification totaling \$225 impacting the valuation in relation to the Campo Morado Loan Agreement.

Effective April 13, 2021, the Company exercised its option to settle the US\$4 million VPP obligation under the Campo Morado Agreement. As consideration, it was agreed that the obligation was settled with 14,600,000 common shares of Altaley valued at \$0.345 per common share. The Company recorded a gain of \$2,125 which represents the difference between the fair value of common shares issued at \$2,920 and the \$5,045 contingent consideration settled with Nyrstar.

Effective September 30, 2021, Breakwater Resources Ltd. (“Breakwater”) acquired from Nyrstar the rights and obligations associated with the Campo Morado Loan Agreement. The Deed of Novation between the Company, Nyrstar, and Breakwater effectively releases and discharges the Company and Nyrstar from further obligations to each other with respect to the Campo Morado Loan Agreement and their respective rights against each other thereunder are cancelled. In respect to the Deed of Novation, the Company and Breakwater each undertake liabilities and obligations towards the other and acquire rights against each other effectively replacing Nyrstar with Breakwater as the lender in relation to the Campo Morado Loan Agreement.

11. 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 annum, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly instalments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly instalments following a 36-month grace period and no later than July 28, 2022. In case of default any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The Company has drawn down from its LOC a total amount of \$2.8M (MXN\$46 million) primarily to further its Tahuehueto project.

Effective July 1, 2021, the Company and Escorfin agreed to amend the LOC agreement resulting in a substantial modification whereby the outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. The remaining term was extended 36 months from the date of amendment with a grace period equal to 12 months on principal and interest. The amended interest rate was decreased to 10% per annum from 15% per annum and as consideration for LOC modification, the Company has agreed to issue Escorfin, 500,000 bonus shares and 1,500,000 bonus warrants. Each bonus warrant is exercisable within a period of two years at a price of \$0.475. The shares issued were valued at the date of issuance, July 30, 2021, and the bonus warrants were fair valued using the Black-Scholes option pricing model, together totaling \$1,197 which was recorded in other assets.

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11. SHORT AND LONG-TERM DEBT (continued)

a) Line of Credit (continued)

The assumptions used for determining the fair value of these warrants were: risk-free interest rate 0.45%, expected dividend yield \$nil, stock price volatility 125%, and expected life of 2 years. The unamortized balance as at September 30, 2021 is \$1,120 (December 31, 2020 – \$nil).

The continuity of the outstanding LOC balance is as follows:

	Amount
Balance, December 31, 2019	\$ 3,892
Interest accrued	436
Foreign exchange movement	(201)
Balance, December 31, 2020	\$ 4,127
Interest accrued prior to extinguishment	284
Loss on extinguishment of LOC	110
Interest accrued following extinguishment	114
Foreign exchange movement	8
Balance, September 30, 2021	\$ 4,643

	September 30, 2021	December 31, 2020
Current portion	\$ 682	\$ 4,127
Long term portion	3,961	-
Balance	\$ 4,643	\$ 4,127

b) Trafigura Loans

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

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

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11. SHORT AND LONG-TERM DEBT (continued)

b) Trafigura Loans (continued)

Under the terms of the Loan Agreement Campo and Loan Agreement Real (collectively the “Trafigura Loans”), the Company is subject to certain covenants. The Company was not in compliance with the Trafigura Loans and on July 1, 2021, the Company and Trafigura agreed to amend the terms of the Trafigura Loans. The loan amendments resulted in a non-substantial modification whereby the interest rates remain unchanged and the outstanding balances including interest were capitalized. The terms of the Loan Agreement Campo and Loan Agreement Real were extended to September 30, 2023 and September 30, 2024, respectively, with 26 equal instalments beginning August 30, 2021 for the Loan Agreement Campo and 32 equal instalments beginning February 1, 2022 for the Loan Agreement Real. As a result of the amendment of terms, the Company recognized a loss on loan modification totaling \$1,087 impacting the fair value of the Trafigura Loans.

The continuity of the loans are as follows:

	Loan Agreement Campo	Loan Agreement Real	Total Trafigura Loans
Balance, December 31, 2019	\$ 4,565	\$ 16,497	\$ 21,062
Interest accrued	621	-	621
Foreign exchange (gain) loss	(173)	769	596
Balance, December 31, 2020	\$ 5,013	\$ 18,384	\$ 23,397
Interest accrued and capitalized	108	478	586
Interest accrued	72	266	338
Interest paid	(66)	(294)	(360)
Principal paid	(387)	-	(387)
Loss on loan modification	74	1,013	1,087
Foreign exchange loss (gain)	1	(78)	(77)
Balance, September 30, 2021	\$ 4,815	\$ 19,769	\$ 24,584

	Loan Agreement Campo	Loan Agreement Real	Total Trafigura Loans
Current portion	\$ 2,432	\$ 4,572	\$ 7,004
Long term portion	2,383	15,197	17,580
Balance, September 30, 2021	\$ 4,815	\$ 19,769	\$ 24,584

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

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11. SHORT AND LONG-TERM DEBT (continued)

c) Accendo Loan

On July 1, 2021, the Company and Accendo executed a US\$12 million Medium Term Loan Facility (“MTLF”) for the purpose of funding the construction of Altaley’s Tahuehueto mining project and working capital purposes. First and second funding were received in the amount of US\$3.2 million and US\$2.5 million on July 19, 2021 and August 23, 2021, respectively. Additionally, an amount of US\$500,000 was advanced during the year 2020.

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

- Loan facility amount - US\$12 million
- Repayment term - 4 years including a one-year grace period on principal
- Repayable in 36 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum payable quarterly in arrears calculated on the drawn amount
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing

Altaley issued 15 million bonus warrants at an exercise price of \$0.09 per common share for a period of 48 months. The bonus warrants were issued in lieu of a work fee but subject to cancellation if the loan facility is not fully drawn. The bonus warrants were fair valued using the Black-Scholes option pricing model and their value is \$1,628 which was recorded in other assets. The 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 of 4 years. The unamortized balance as at September 30, 2021 is \$947 (December 31, 2020 – \$1,354).

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

The continuity of the MTLF is as follows:

	Amount
Balance, December 31, 2019	\$ -
Loan	655
Interest accrued	46
Interest paid	(25)
Foreign exchange gain	(19)
Balance, December 31, 2020	\$ 657
Loan	7,134
Interest accrued	190
Interest paid	(35)
Principal repayments	(109)
Foreign exchange loss	130
Balance, September 30, 2021	\$ 7,967

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11. SHORT AND LONG-TERM DEBT (continued)

c) Accendo Loan (continued)

	September 30, 2021	December 31, 2020
Current portion	\$ 850	\$ 126
Long term portion	7,117	531
Balance	\$ 7,967	\$ 657

12. EMPRESS ROYALTY STREAM

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

13. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Altaley’s leases consist of primarily 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 September 30, 2021, the Company recorded \$602 (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 nine months ended September 30, 2021, and year ended December 31, 2020 is as follows:

	Amount	
Balance lease liabilities, December 31, 2019	\$	1,927
New leases		303
Cancelation or amendment of leases		(160)
Lease payments		(359)
Interest expense		102
Interest paid		(102)
Foreign exchange movement		(90)
Balance lease liabilities, December 31, 2020	\$	1,621
Lease payments		(304)
Cancelation or amendment of leases		(729)
Interest expense		53
Interest paid		(53)
Foreign exchange movement		14
Balance, September 30, 2021	\$	602
	September 30, 2021	December 31, 2020
Current portion	\$ 303	\$ 1,355
Long term portion	299	266
Balance	\$ 602	\$ 1,621

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13. RIGHT OF USE ASSETS AND LEASE LIABILITIES (continued)

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

	Amount
2021	\$ 92
2022	355
2023	122
2024	65
Thereafter	38
Total minimum lease payments	672
Present value of minimum lease payments	(70)
Lease obligations, September 30, 2021	\$ 602

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.

	Machinery & equipment	Offices	Vehicles	Right of use assets (Note 9)
Cost				
Balance, December 31, 2019	\$ 2,315	\$ 536	\$ 153	\$ 3,004
Additions	-	271	-	271
Dispositions	(1,384)	(285)	-	(1,669)
Balance, December 31, 2020	\$ 931	\$ 522	\$ 153	\$ 1,606
Change in estimate	-	9	-	9
Dispositions	(200)	-	(49)	(249)
Balance, September 2021	\$ 731	\$ 531	\$ 104	\$ 1,366
Accumulated amortization				
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	131	77	26	234
Dispositions	(55)	-	(38)	(93)
Balance, September 30, 2021	\$ 392	\$ 219	\$ 75	\$ 686
Foreign currency movement				
Balance, December 31, 2020	\$ 86	\$ (17)	\$ (8)	\$ 61
Balance, September 30, 2021	\$ (100)	\$ (56)	\$ 33	\$ (123)
Net book value				
Balance, December 31, 2020	\$ 701	\$ 363	\$ 58	\$ 1,122
Balance, September 30, 2021	\$ 239	\$ 256	\$ 62	\$ 557

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14. SHARE CAPITAL

Common share transactions:

Period ended September 30, 2021

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

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

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

- ii. Effective April 13, 2021, the Company exercised its option to settle the US\$4 million VPP obligation under the Campo Morado Agreement (Note 10). As consideration, it was agreed that the obligation was settled with 14,600,000 common shares of Altaley valued at \$0.345 per common share.
- iii. On July 30, 2021, the Company issued 500,000 common shares to Escorfin, a related party, in part for its efforts in amending the terms of the LOC (Note 11(a)).
- iv. During the period ended September 30, 2021, the Company issued 3,073,335 common shares for gross proceeds of \$428 in connection with stock options exercised. The fair value of the options exercised was \$401 and was transferred from the equity reserves and recorded against share capital.
- v. During the period ended September 30, 2021, the Company issued 3,165,000 common shares for gross proceeds of \$687 in connection with share purchase warrants exercised. There was no fair value allocated to 2,165,000 of these share purchase warrants. The fair value of the remaining 1,000,000 warrants exercised was \$208 and was transferred from the equity reserves and recorded against share capital.

Period ended September 30, 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 (each, a "Unit") 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 months from closing. The fair value of the warrants is \$10.

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

- ii. On May 27, 2020, the Company closed the second and final tranche of a non-brokered private placement offering, whereby gross proceeds of \$197 were raised by the issuance of 1,965,990 units at a price of \$0.10 per unit. Each unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four months from closing.

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14. SHARE CAPITAL (continued)

Escorfin, a related party, acquired 1,412,400 units.

In connection with the above private placement, the Company issued 361,239 units as finders' fees. Each unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four months from closing. The finders' warrants were recorded at a fair value of \$6.

- iii. On July 10, 2020, the Company closed a non-brokered private placement (PP Jul10) which consisted of 13,996,145 units (the Units Jul10) at a price of \$0.10 per Unit Jul10 for gross proceeds of \$1,400. Each Unit Jul10 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 PP Jul10 were subject to a hold period expiring four months and one day after the closing date.

15. EQUITY RESERVES

a) Share-based compensation

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

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

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2019	9,567,166	\$ 0.39
Granted	350,000	0.19
Exercised	(75,000)	0.13
Cancelled	(1,150,000)	0.41
Outstanding, December 31, 2020	8,692,166	\$ 0.36
Granted	9,025,000	0.34
Exercised	(3,073,335)	0.14
Cancelled	(4,085,498)	0.38
Outstanding, September 30, 2021	10,558,333	\$ 0.38

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15. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

As at September 30, 2021, and December 31, 2020, the number of stock options outstanding and exercisable were:

Expiry date	Outstanding		Exercisable	
	Number of options	Exercise price	Remaining contractual life (years)	Number of options
November 11, 2022	1,383,333	\$ 0.65	1.12	1,383,333
February 2, 2023	300,000	0.30	1.34	300,000
March 16, 2023	300,000	0.30	1.46	300,000
April 16, 2023	400,000	0.30	1.54	400,000
January 29, 2025	200,000	0.20	3.33	133,333
February 8, 2025	250,000	0.20	3.36	166,667
August 6, 2025	100,000	0.16	3.85	100,000
February 25, 2026	5,250,000	0.30	4.41	3,500,000
May 11, 2026	75,000	0.46	4.61	25,000
May 19, 2026	2,000,000	0.45	4.64	666,667
August 9, 2026	100,000	0.53	4.86	33,333
August 23, 2026	100,000	0.55	4.90	33,333
September 20, 2026	100,000	0.48	4.98	33,333
Outstanding, September 30, 2021	10,558,333			7,075,000

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
Outstanding, December 31, 2020	8,692,166			8,457,666

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees, and others providing similar services. During the three and nine months period ended September 30, 2021, an amount of \$367 and \$1,311 (three and nine months period ended September 30, 2020 – \$23 and \$23) was expensed respectively as share-based compensation. The portion of share-based compensation recorded is based on the vesting terms of the options.

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15. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

During the period ended September 30, 2021, the Company re-priced 1,853,333 stock options originally granted as to; 1,403,333 exercisable at \$0.71 until November 10, 2022, 400,000 exercisable at \$0.77 until April 16, 2023, and 50,000 exercisable at \$0.71 until April 23, 2023. These stock options have been repriced to \$0.30 per share and expiry dates remain unchanged. 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 September 30, 2021, and 2020, were estimated at \$2,280 and \$60 respectively, using the Black-Scholes option valuation model with the following weighted average assumptions:

	2021	2020
Risk-free interest rate	0.66%	0.36%
Expected forfeiture rate	Nil	Nil
Stock price volatility	118%	108%
Expected life (in years)	4.80	4.65
Weighted average fair value	\$ 0.25	\$ 0.20

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

b) Share purchase warrants

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

	Warrants 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	26,700,000	0.31
Exercised	(3,165,000)	0.22
Outstanding, September 30, 2021	68,425,909	\$ 0.22

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15. EQUITY RESERVES (continued)

b) Share purchase warrants (continued)

Outstanding				
Expiry date	Granted	Exercise price	Remaining contractual life (years)	
February 4, 2022	8,029,221	\$	0.25	0.3
October 16, 2023	11,000,000		0.18	2.0
May 27, 2022	1,163,615		0.25	0.7
July 9, 2022	6,645,573		0.15	0.8
June 30, 2024	15,000,000		0.09	2.8
March 29, 2023	25,087,500		0.30	1.5
July 1, 2023	1,500,000		0.48	1.8
	68,425,909	\$	0.22	1.6

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Accounts payable and accrued liabilities included in mineral interest and development asset	\$ 1,190	\$ 638	\$ 563	\$ 918
Interest of long-term debt capitalized as mineral interest and development asset	463	444	1,349	921
Depreciation capitalized as mineral interest and development assets	440	143	876	403
Right of use of assets amortization capitalized	79	74	143	162
Fair value of stock options exercised	30	-	428	-

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest paid (note 10 and 11)	\$ 2,694	\$ -	\$ 2,793	\$ -
Income taxes paid	-	-	-	-

17. RELATED PARTY BALANCES AND TRANSACTIONS

a) Compensation of key management personnel

Key management personnel include members of the Board of Directors and officers of the Company. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Short-term benefits	\$ 224	\$ 133	\$ 581	\$ 444
Share-based compensation	135	-	536	-
	\$ 359	\$ 133	\$ 1,117	\$ 444

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17. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

b) Related party balances

As at September 30, 2021, directors and officers or their related companies were owed \$157 (December 31, 2020 – \$615) included in accounts payable and accrued liabilities mainly in respect to reimbursement of expenses and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

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

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin (Note 11(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 September 30, 2021.

	September 30, 2021	December 31, 2020
Current portion	\$ 682	\$ 4,127
Long term portion	3,961	-
Balance	\$ 4,643	\$ 4,127

During the three and nine months ended September 30, 2021, the Company incurred interest in the amount of \$149 and \$398 respectively of which \$nil was paid for both periods.

During the three and nine months ended September 30, 2020, the Company incurred interest in the amount of \$55 and \$714 respectively of which \$nil was paid for both periods.

Escorfin acquired the following Units in the private placement:

During the nine months ended September 30, 2021, Escorfin participated in private placements dated March 30, 2021 and February 4, 2021, whereby 500,000 Units and 5,853,796 Units, respectively were acquired by the related party. During the nine months ended September 30, 2020, Escorfin acquired 1,412,400 Units on May 27, 2020.

In addition to the Units acquired via private placement, Escorfin was granted 500,000 bonus shares and 1,500,000 bonus warrants in connection with the restructure of the LOC in Note 11(a).

18. 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

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18. FINANCIAL INSTRUMENTS (continued)

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

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

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and marketable securities are held through large Canadian, international, and foreign national financial institutions. The Company's accounts receivable consists of trade receivables from concentrate sales and taxes receivable from federal government agencies. Trade receivables are held with one large international metals trading company. The Company mitigates this risk by transacting only with reputable financial institutions and requiring provisional payments of 90% of the value of the concentrate shipped to a single well-known buyer. 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.

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18. FINANCIAL INSTRUMENTS (continued)

c) Market risk (continued)

i) Foreign currency risk (continued)

		Amounts US Dollars		Amounts Mexican Peso
Financial assets denominated in foreign currencies	US\$	9,732,567	MXN\$	146,320,364
Financial liabilities denominated in foreign currencies		(34,024,239)		(366,816,368)
Net exposure	US\$	(24,291,672)	MXN\$	(220,496,004)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$5,933.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$1,634.

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 September 30, 2021 and December 31, 2020, the Company's long-term debts are at fixed and floating rates and the Company has not entered into any financial derivatives or other financial instruments to hedge against this risk. The Company's loan agreements bear interest at variable and fixed rates. Interest risk exposure is in relation to variable interest rates such as LIBOR (3M) and (1 year) rates and a variation of 1% on the interest rate would change comprehensive loss by approximately \$235. 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 September 30, 2021, and the year ended December 31, 2020, a 10% change in zinc and lead prices would result in an increase/decrease of approximately \$71 and \$71 respectively in revenues.

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19. 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.

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.

There has been no change to the Company's approach to capital management during the period ended as of September 30, 2021, and the year ended December 31, 2020.

The Company is not subject to externally imposed capital requirements.

20. 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	\$	3,075	\$	25,673	\$	28,748
Non-current assets						
Mineral interest and development assets		-		21,165		21,165
Property, plant, and equipment, net		101		23,446		23,547
Other assets and long term accounts receivable		2,067		5,738		7,805
Total assets, September 30, 2021	\$	5,243	\$	76,022	\$	81,265
Current liabilities	\$	6,824	\$	27,375	\$	34,199
Non-current liabilities		6,867		34,738		41,605
Total liabilities, September 30, 2021	\$	13,691	\$	62,113	\$	75,804

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20. SEGMENTED INFORMATION (continued)

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

During the period ended September 30, 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 September 30, 2021 trade receivables of \$1,150 (December 31, 2020 – \$241) were receivable entirely from this one customer. Revenues and pre-commercial sales if any, all were earned within Mexico.

Business segments are as follows:

September 30, 2021	Campo	Real de la	Other	Altaley	Total
	Morado	Bufo		Mining	
	Mexico	Mexico	Mexico	Canada	
Revenue, net	\$ 49,927	\$ -	\$ -	\$ -	\$ 49,927
Production costs and royalties	(25,246)	-	-	(160)	(25,406)
Accretion of provision for site reclamation and closure	(328)	-	-	-	(328)
Depletion and amortization	(390)	-	-	-	(390)
Mine operating earnings	\$ 23,963	\$ -	\$ -	(160)	\$ 23,803
General expenses	(1,754)	(1,137)	-	(3,420)	(6,311)
Other income (expenses)	(908)	(157)	(183)	(589)	(1,837)
Net income (loss) for the period	\$ 21,301	\$ (1,294)	\$ (183)	\$ (4,169)	\$ 15,655

September 30, 2020	Campo	Real de la	Other	Altaley	Total
	Morado	Bufo		Mining	
	Mexico	Mexico	Mexico	Canada	
Revenue, net	\$ 13,532	\$ -	\$ -	\$ -	\$ 13,532
Production costs and royalties	(13,163)	-	-	-	(13,163)
Accretion of provision for site reclamation and closure	(271)	-	-	-	(271)
Depletion and amortization	(318)	-	-	-	(318)
Mine operating earnings	(220)	-	-	-	(220)
General expenses	(1,423)	(359)	-	(1,048)	(2,830)
Other income (expenses)	(748)	3,225	(107)	(1,264)	1,106
Net income (loss) for the period	\$ (2,391)	\$ 2,866	\$ (107)	\$ (2,312)	\$ (1,944)

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21. SUBSEQUENT EVENTS

Between October 1, 2021 and November 22, 2021, the Company issued 1,372,250 common shares for gross proceeds of \$349 through the exercise of share purchase warrants. On October 5, 2021, a treasury order was issued by the Company cancelling 66,667 shares previously issued.