



TELSON MINING CORPORATION
(Formerly Telson Resources Inc)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

UNAUDITED

(Expressed in Canadian dollars)

TELSON MINING CORPORATION

(Formerly Telson Resources Inc)

(the "Company")

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim consolidated financial statements of the Company have been

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

May 30, 2018

Telson Mining Corporation (formerly Telson Resources Inc)
Condensed Interim Consolidated Statements of Financial Position
Unaudited - (Expressed in Canadian dollars)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 6,678,918	\$ 11,997,057
Amounts receivable (note 4)	9,408,221	7,000,641
Prepaid expenses and deposits	352,075	154,891
Inventory (note 5)	2,977,604	2,224,518
	19,416,818	21,377,107
Non-current assets:		
Mineral interest and development assets (note 6)	33,343,356	32,415,734
Property, plant and equipment (note 7)	12,136,297	11,206,938
Total assets	\$ 64,896,471	\$ 64,999,779
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,957,187	\$ 8,870,782
Obligation under share purchase agreement (note 6(a))	257,020	252,276
Current portion of finance lease obligation (note 9)	438,115	370,289
Current portion of the long-term debt (note 8)	4,547,599	2,480,406
Due to Nyrstar Mining Ltd. (note 3 and 6(b))	26,135,140	25,764,936
	41,335,061	37,738,689
Non-current liabilities:		
Long-term debt (note 8)	15,583,428	18,068,101
Finance lease obligation (note 9)	1,340,029	1,415,696
Provision for site reclamation and closure	6,071,673	5,946,571
Total liabilities	\$ 64,330,191	\$ 63,169,057
Equity		
Share capital (note 10)	\$ 54,967,766	\$ 54,757,074
Equity reserves (note 11)	2,262,950	1,942,238
Currency translation reserve	(2,916,980)	(1,338,941)
Deficit	(53,747,456)	(53,529,649)
Total equity	566,280	1,830,722
Total liabilities and equity	\$ 64,896,471	\$ 64,999,779

Subsequent events (note 18)

Approved by the Board of Directors on May 30, 2018, and signed on the Company's behalf by:

"José Antonio Berlanga Balderas"
Director

"Ralph Shearing"
Director

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

Telson Mining Corporation (formerly Telson Resources Inc)**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

Unaudited - (Expressed in Canadian dollars, except for share amounts)

	Three months ended March 31, 2018	Three months ended March 31, 2017
General Expenses:		
Consulting fees, wages and benefits (note 14)	\$ 444,117	\$ 176,775
Legal and professional fees	44,192	16,674
Office, rent and administration	173,667	88,984
Regulatory, transfer agent and shareholder information	35,667	10,971
Travel, promotion and investor relations	238,989	63,577
Share-based compensation (note 11(a) and 14)	360,712	60,304
	1,297,344	417,285
Other (income) expense:		
Interest income and other income	\$ (191)	\$ (465)
Accretion of provision for site reclamation and closure	125,289	—
Recovery of expenses	(149,447)	—
Interest expenses and other expenses	27,176	63,425
Foreign exchange (gain) loss	(1,082,364)	400,935
	(1,079,537)	463,895
Total loss for the period	\$ (217,807)	\$ (881,180)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation adjustment	(1,578,039)	—
Total items that may be reclassified subsequently to profit or loss	(1,578,039)	—
Total comprehensive loss for the period	\$ (1,795,846)	\$ (881,180)
Weighted average number of shares outstanding		
Basic and diluted	124,763,329	94,016,995
Loss per share (note 13)		
Basic and diluted	\$ (0.00)	\$ (0.01)

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

Telson Mining Corporation (formerly Telson Resources Inc)
Condensed Interim Consolidated Statements of Changes in Equity
Unaudited - (Expressed in Canadian dollars, except for number of common shares)

	Number of common shares	Share capital	Equity component convertible debenture	Equity reserves	Currency translation reserve	Deficit	Total
Balance at December 31, 2016	92,900,995	\$48,853,522	\$ -	\$ 754,912	\$ -	\$ (51,335,192)	\$ (1,726,758)
Share purchase warrants exercised	991,000	49,550	-	-	-	-	49,550
Stock options exercised	125,000	16,250	-	-	-	-	16,250
Fair value of stock options allocated to share capital issued on exercise	-	15,000	-	(15,000)	-	-	-
Equity component of convertible debenture	-	-	170,873	-	-	-	170,873
Share-based compensation	-	-	-	60,304	-	-	60,304
Loss and comprehensive loss for the period	-	-	-	-	-	(881,180)	(881,180)
Balance as at March 31, 2017	94,016,995	\$48,934,322	\$ 170,873	\$ 800,216	\$ -	\$ (52,216,372)	\$ (2,310,961)
Balance as at December 31, 2017	124,218,120	\$54,757,074	\$ -	\$ 1,942,238	\$ (1,338,941)	\$ (53,529,649)	\$ 1,830,722
Share purchase warrants exercised	1,061,324	127,359	-	-	-	-	127,359
Stock options exercised	333,331	43,333	-	-	-	-	43,333
Fair value of stock options allocated to share capital issued on exercise	-	40,000	-	(40,000)	-	-	-
Share-based compensation (note 11(a) and 14)	-	-	-	360,712	-	-	360,712
Loss and comprehensive loss for the period	-	-	-	-	(1,578,039)	(217,807)	(1,795,846)
Balance as at March 31, 2018	125,612,775	\$54,967,766	\$ -	\$ 2,262,950	\$ (2,916,980)	\$ (53,747,456)	\$ 566,280

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

Telson Mining Corporation (formerly Telson Resources Inc)

Condensed Interim Consolidated Statements of Cash Flows

Unaudited - (Expressed in Canadian dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash (used in) provided by:		
Operating activities:		
Loss for the period	\$ (217,807)	\$ (881,180)
Items not involving cash:		
Depreciation	–	7,195
Accretion of provision for site reclamation and closure	125,289	1,821
Unrealized foreign exchange	(1,082,364)	334,643
Share-based compensation (note 11a))	360,712	60,304
Changes in non-cash working capital:		
Amounts receivable	(1,960,352)	(19,521)
Prepaid expenses and deposits	(180,767)	17,293
Inventory	(492,041)	–
Accounts payable and accrued liabilities	451,490	(9,652)
Cash used in operating activities	(2,995,840)	(489,097)
Investing activities:		
Plant and equipment additions	(831,089)	(1,360,745)
Mineral interest and development assets additions	477,845	109,508
	–	–
Cash used in investing activities	(353,244)	(1,251,237)
Financing activities:		
Proceeds from issuance of common shares, net of share issue costs (note 10)	–	49,550
Convertible debenture	–	1,069,120
Proceeds in connection to warrants and/or stock options exercised	170,692	16,250
Payment of contingent consideration	(206,102)	–
Repayment of long term debt	(1,590,509)	–
Cash (used in) provided by financing activities	(1,625,919)	1,134,920
Effect of foreign exchange rate changes on cash	(343,136)	46,987
Decrease in cash	(5,318,139)	(558,427)
Cash, beginning of the period	11,997,057	2,489,614
Cash, end of the period	\$ 6,678,918	\$ 1,931,187

Supplemental cash flow information (note 12)

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

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

1. CORPORATE INFORMATION

Telson Mining Corporation (formerly, Telson Resources Inc.), (the "Company" or "Telson") was incorporated on April 11, 1986, under the laws of British Columbia, Canada. The Company's head office address is 1090 West Georgia Street, Suite 450, Vancouver, British Columbia, V6E 3V7, 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".

2. BASIS OF PRESENTATION

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 should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, which were filed under the Company's profile on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 30, 2018.

Comparative figures

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

Basis of preparation and consolidation

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 financial statements of the Company for the year ended December 31, 2017.

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

Subsidiary	Place of Incorporation	Beneficial Interest
Samarkand de Mexico, S.A. de C.V.	Mexico	100%
Sierra Soleada S.A. de C.V.	Mexico	100%
Real de la Bufa S.A. de C.V. (formerly Sacramento de la Plata, S.A. de C.V.) ⁽ⁱ⁾	Mexico	99%
Minas Campo Morado, S.A. de C.V. (formerly Nyrstar Campo Morado, S.A. de C.V.) ⁽ⁱ⁾	Mexico	100%
Prestadora de Servicios Arcelia, S.A. de C.V.	Mexico	100%
Minas de Arcelia, S.A. de C.V. ⁽ⁱ⁾	Mexico	100%
Grupo Minero Mexicano Nyrstar, S.A. de C.V.	Mexico	100%
Grupo Minero HD, S.A. de C.V. ⁽ⁱ⁾	Mexico	100%

⁽ⁱ⁾ Acquired on June 13, 2017 (Note 3)

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

2. BASIS OF PRESENTATION (continued)

Basis of preparation and consolidation (continued)

Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. All intercompany balances and transactions have been eliminated upon consolidation.

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information.

Functional and presentation currency

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

Prior to January 1, 2017, the functional currency of the Company's subsidiary, Real de la Bufa S.A. de C.V. ("Real") was the Canadian dollar. On January 1, 2017, Real changed its functional currency from the Canadian dollar to the US dollar as the Tahuehueto property, held by Real, had transitioned to the development stage as disclosed in note 6 and commenced mine commissioning activities, and is now generating United states dollar cash flows from sales as the Tahuehueto mine is in pre-commercial production. The US dollar was determined to be the functional currency of the primary economic environment in which Real operates, as the majority of the development, operational and sales activities are denominated or are influenced by the US dollar.

The change in functional currency was accounted for on a prospective basis, with no impact of this change on prior year comparative information.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Business Combination

Determination of whether a set of assets acquired, and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 - Business Combinations.

Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Campo Morado (note 3) (the "Campo Morado Acquisition") met the criteria of a business combination and the Campo Morado Acquisition has been accounted for as such.

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

3. ACQUISITION OF CAMPO MORADO

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.

Under the terms of the Campo Morado Agreement, the Company has agreed to pay a total purchase price of US\$20 million plus any applicable taxes, as described below, to Nyrstar under the following schedule:

- US\$0.8 million at signing of the Agreement (Paid);
- US\$2.7 million on or before June 12, 2017 (Paid);
- US\$16.5 million on or before June 13, 2018.

As part of the Campo Morado Agreement, Nyrstar also retained the right to receive a variable purchase price on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado Mine when the price of zinc is at or above US\$2,100 per tonne. Telson shall pay Nyrstar the greater of either:

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

The Company maintains the right under the Campo Morado Agreement to purchase 100% of the variable purchase price at any time for US\$4 million. Contingent consideration has been valued at US\$4 million as the Company intends to purchase the variable purchase price from Nyrstar.

For accounting purposes, the Campo Morado Acquisition was accounted for as a business combination and the acquisition method of accounting was used, whereby the purchase price is allocated to the identifiable assets and liabilities on the basis of fair value at the acquisition date.

As of the date of these consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of the net assets acquired. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary fair value below and are subject to change within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

Transaction costs associated with the acquisition totaling \$91,690 were expensed as incurred and were included in legal and professional fees in year ended December 31, 2017. Campo Morado's operations have been included in the Company's results of operations from the acquisition date.

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

3. ACQUISITION OF CAMPO MORADO (continued)

The allocation of the purchase price based on management's estimates of the relative fair value of assets acquired and liabilities assumed is as follows:

Total purchase price:	
Cash consideration paid (US\$ 3,500,000)	\$ 4,697,550
Cash consideration payable (US \$16,500,000)	21,842,700
Contingent consideration (US \$4,000,000)	5,295,200
Total purchase price to allocate	\$ 31,835,450
Cost of assets acquired and liabilities assumed:	
Cash	\$ 39,652
Amounts receivable and prepaid expenses	221,247
Property, plant and equipment	7,651,284
Mineral property interest	34,421,631
Accounts payable and accrued liabilities	(3,477,852)
Provision for site reclamation and closure	(7,020,512)
	\$ 31,835,450
Bargain purchase gain	\$ -

4. AMOUNTS RECEIVABLE

	March 31, 2018	December 31, 2017
Trade receivables	\$ 5,955,338	\$ 4,293,360
Value added taxes and other taxes receivable	2,523,959	2,280,744
Other receivables	928,924	426,537
Total amounts receivable	\$ 9,408,221	\$ 7,000,641

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 property.

5. INVENTORIES

	March 31, 2018	December 31, 2017
Ore in-process	\$ 607,861	\$ 1,015,227
Concentrates	118,582	202,280
Materials and supplies	2,251,161	1,007,011
Total inventories	\$ 2,977,604	\$ 2,224,518

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

6. MINERAL INTEREST AND DEVELOPMENT ASSETS

a) Tahuehueto Project

In 1997, the Company through a wholly owned subsidiary entered into a share purchase agreement (the "Real Agreement") to purchase 90% of the issued and outstanding shares of Real de la Bufo, which holds a 100% interest in the Tahuehueto mineral property, located in Durango State, Mexico. In 2007, the Company converted into equity a portion of its inter-company debt with Real de la Bufo, 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 \$257,020 (December 31, 2017 - \$252,276 (US\$200,000)) to some of the Real de la Bufo's shareholders.

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

On April 26, 2016, the Company signed an agreement with the local community and extended the surface access rights for 30 years. Under the terms of the agreement, the Company made an initial payment of US\$46,540 and will subsequently make equal recurring yearly payments that will increase by a rate of 5% compounded annually.

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

At the time of the transition from exploration and evaluation to development stage property, the Company completed an impairment test as required by IFRS 6. The impairment test compared the carrying amount of Tahuehueto Project to its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs of disposal. The Company estimated the recoverable amount based on the fair value less costs of disposal using a discounted cash flow model with feasibility study economics. The significant assumptions that impacted the resulting fair value include future gold prices, exchange rates, capital cost estimates, operating cost estimates, estimated reserves and resources, and the discount rate. Upon completion of the impairment tests, the Company concluded that there was no impairment.

b) Campo Morado Project

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

The Campo Morado property comprises seven mineral concessions located in Guerrero state, Mexico. The Campo Morado Project is subject to a royalty between 2% and 3% of the net value of liquidation over the minerals extracted during the term of existence of the mining concession to the Servicio Geológico Mexicano ("SGM").

As part of the Campo Morado Acquisition, the seller retained the right to receive a variable purchase price on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado Mine when the price of zinc is at or above US\$2,100 per tonne. Telson shall pay Nyrstar the greater of either:

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

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

6. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

b) Campo Morado Project (continued)

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

As at March 31, 2018, the Company has recorded \$26,135,140 (December 31, 2017 \$25,764,936) due to Nyrstar Mining Ltd. on the statement of financial position, representing the cash consideration payable of US\$16.5 million and the balance of the contingent consideration of US\$ 3.8 million (December 31, 2017 - US\$4 million).

c) Costs capitalized as mineral interest and development assets

For the periods ended March 31, 2018 and December 31, 2017, the Company capitalized the following acquisition and developments costs:

	Tahuehueto	Campo Morado	Total
Balance as at December 31, 2017	\$ -	\$ 32,415,734	\$ 32,415,734
Costs incurred:			
Assaying, data and maps	17,289	-	17,289
Camp cost, equipment and field supplies	213,100	699,292	912,392
Development costs	158,631	-	158,631
Ore processing	591,388	-	591,388
Freight and related costs	542,380	1,523,150	2,065,530
Fuel and consumables	92,117	630,112	722,229
Supplies, lubricants and other	-	2,482,084	2,482,084
Electricity	-	949,505	949,505
Project general and office expenses	69,521	1,306,282	1,375,803
Geological consulting services	(285)	188,120	187,835
Permitting, environmental and community costs	120,866	(6,083)	114,783
Salaries and wages	266,290	1,636,833	1,903,123
Travel and accommodation	6,760	1,945	8,705
Change in provision for site reclamation	-	-	-
Depreciation capitalized	81,889	79,362	161,251
Royalties	66,197	261,077	327,274
Interest capitalized	404,268	106,743	511,011
Pre - commercial sales	(2,630,411)	(9,696,111)	(12,326,522)
Total additions for the period	-	162,311	162,311
Foreign currency movement	-	765,311	765,311
Balance as at March 31, 2018	\$ -	\$ 33,343,356	\$ 33,343,356

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

6. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

	Tahuehueto	Campo Morado	Total
Balance as at December 31, 2016	\$ 576,525	\$ -	\$ 576,525
Costs incurred:			
Acquisition costs (note 4)	-	34,421,631	34,421,631
Assaying, data and maps	25,900	-	25,900
Camp cost, equipment and field supplies	517,665	535,157	1,052,822
Development costs	1,059,040	-	1,059,040
Ore processing	1,208,746	-	1,208,746
Freight and related costs	1,730,930	767,653	2,498,583
Fuel and consumables	194,934	555,990	750,924
Electricity	-	681,177	681,177
Project general and office expenses	175,652	1,294,952	1,470,604
Geological consulting services	183,387	838,365	1,021,752
Permitting, environmental and community costs	389,609	52,141	441,750
Salaries and wages	776,980	2,498,419	3,275,399
Travel and accommodation	112,829	61,210	174,039
Change in provision to site reclamation	-	(937,814)	(937,814)
Depreciation	46,588	75,492	122,080
Royalties	58,992	188,222	247,214
Interest expense	675,227	137,764	812,991
Pre-commercial sales	(7,755,879)	(6,992,028)	(14,747,907)
Total additions for the year	(599,400)	34,178,331	33,578,931
Foreign currency movement	22,875	(1,762,597)	(1,739,722)
Balance as at December 31, 2017	\$ -	\$ 32,415,734	\$ 32,415,734

Included in mineral interest and development assets there are \$511,011 (December 31, 2017 - \$812,991) of capitalized borrowing costs based on a capitalization rate of 100%.

The Company recorded \$149,447 (December 31, 2017 - \$137,733) in expense recoveries on the statement of loss relating to pre-commercial sales which exceeded the capitalized costs of the Tahuehueto property.

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant and infrastructure	Machinery and equipment	Finance Leases (Note 10)	Total
Cost					
Balance, December 31, 2017	\$ 3,300,992	\$ 2,228,009	\$ 4,009,611	\$ 2,315,335	\$ 11,853,947
Additions	-	-	831,089	-	831,089
Balance, March 31, 2018	\$ 3,300,992	\$ 2,228,009	\$ 4,840,700	\$ 2,315,335	\$ 12,685,036
Accumulated depreciation					
Balance, December 31, 2017	\$ -	\$ 36,234	\$ 96,066	\$ -	\$ 132,300
Depreciation of the period	-	17,806	143,445	-	161,251
Balance, March 31, 2018	\$ -	\$ 54,040	\$ 239,511	\$ -	\$ 293,551
Foreign currency movement					
December 31, 2017	\$ (173,184)	\$ (108,972)	\$ (188,351)	\$ (44,202)	\$ (514,709)
March 31, 2018	\$ (61,274)	\$ (40,818)	\$ (108,605)	\$ (44,491)	\$ (255,188)
Net book value					
Balance, December 31, 2017	\$ 3,127,808	\$ 2,082,803	\$ 3,725,194	\$ 2,271,133	\$ 11,206,938
Balance, March 31, 2018	\$ 3,239,718	\$ 2,133,151	\$ 4,492,584	\$ 2,270,843	\$ 12,136,297

8. LONG-TERM DEBT

a) Line of Credit

On July 22, 2016, the Company entered into an agreement for a MXN\$150,000,000 line of credit (the "LOC"). The funds drawn down under the LOC accrue interest at a rate of 15% per year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back any cash disbursements in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default of any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The funds from the LOC are to be applied towards the Company's investment plan established in its recently completed Internal Scoping Study. The obligations of the Company under the LOC are secured by substantially all the Company's assets, including certain mining concessions.

The Company has drawn down from its LOC a total amount of MXN\$65,000,000 primarily to further its Tahuehueto project. The Company repaid MXN\$20,000,000 in January 2018. The continuity of the outstanding long-term debt is as follows:

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

8. LONG-TERM DEBT (continued)

	Amount
Balance, December 31, 2016	\$ 4,359,726
Accrued interest	638,202
Interest paid	(188,393)
Foreign exchange adjustment	(149,698)
Balance, December 31, 2017	\$ 4,659,837
Principal payments	(1,314,727)
Interest paid	(229,074)
Accrued interest	132,104
Foreign exchange adjustment	405,670
Balance, March 31, 2018	\$ 3,653,810

	March 31, 2018	December 31, 2017
Current portion	\$ 501,396	\$ 519,156
Long term portion	3,152,414	4,140,681
Balance	\$ 3,653,810	\$ 4,659,837

a) Loan Facility Campo

On September 11, 2017, the Company entered into a loan agreement ("Loan Agreement Campo") with Trafigura Mexico, S.A. de C.V. 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 six months grace period followed by thirty monthly repayments. In connection to the loan agreement the Company also entered into an Offtake agreement with Minas de Campo Morado, S.A. de C.V., ("Offtake Agreement Campo") in which the Company will sell all its zinc and lead concentrates for a fifty-one-month term.

Under the terms of the Loan Agreement Campo, the Company is subject to certain covenants, including the Company must maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is in compliance with the covenants as at March 31, 2018.

	Amount
Balance, December 31, 2016	\$ -
Cash advanced from the Loan Agreement Campo	6,064,255
Accrued interest	141,649
Foreign exchange adjustment	221,129
Balance, December 31, 2017	\$ 6,427,033
Accrued interest	99,018
Foreign exchange adjustment	41,695
Balance, March 31, 2018	\$ 6,567,746

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

8. LONG-TERM DEBT (continued)

	March 31, 2018	December 31, 2017
Current portion	\$ 2,570,200	\$ 1,928,110
Long term portion	3,997,546	4,498,923
Balance	\$ 6,567,746	\$ 6,427,033

b) 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 will be released four months after the signing of the agreement and shall not pass six months following the signing of the agreement and is subject to securing additional funding of US\$5 million in the form of equity and/or a loan and that at least US\$4.5 million of these funds are invested on capital expenditures. The third tranche for US\$2.5 million will be available in six months after the signing of the agreement but shall not pass nine months after the signing of the agreement subject to securing additional funding of US\$2.5 million in the form of equity and/or a loan and at least US\$2 million of these funds are invested on capital expenditures. The loan bears interest at an effective annual rate equivalent to LIBOR (1Y) plus 6%, it has a three-year term with a twelve month grace period followed by twenty-four repayments. In connection to the loan agreement the Company also entered into an Offtake agreement with Real de la Bufa, S.A. de C.V., ("Offtake Agreement Real") in which the Company will sell all its zinc and lead concentrates for a sixty month term.

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 in compliance with the covenants as at December 31, 2017. The loan is secured by the shares of Minas Campo Morado S.A. de C.V. The loan is secured by the Tahuehueto mining concessions.

	Amount
Balance, December 31, 2016	\$ -
Cash advanced from the Loan Agreement Real	9,620,198
Accrued interest	33,140
Foreign exchange adjustment	(191,701)
Balance, December 31, 2017	\$ 9,461,637
Accrued interest	266,937
Foreign exchange adjustment	180,897
Balance, March 31, 2018	\$ 9,909,471

	March 31, 2018	December 31, 2017
Current portion	\$ 1,476,003	\$ 33,140
Long term portion	8,433,468	9,428,497
Balance	\$ 9,909,471	\$ 9,461,637

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

9. FINANCE LEASES

During the year ended December 31, 2017, the Company entered into three equipment lease contracts which formed part of a \$US 2 million Equipment Lease Line of Credit. These equipment lease contracts are accounted for as finance leasing contracts and were included as a non-cash addition to property, plant and equipment, with a corresponding amount recognized as a finance lease obligation. Direct transaction costs have been added to the cost base of the leased assets. Lease payments under the Equipment Lease Facility are payable monthly and comprise principal payments and interest, interest being at a fixed rate between 7.5% and 8.10%. Total finance expenses incurred are capitalized to property, plant and equipment. As at March 31, 2018, the Company recognized \$1,778,144 (December 31, 2017 - \$1,785,985) as a finance lease obligation and \$2,271,133 (December 31, 2017 - \$2,271,133) as property, plant and equipment which included \$461,521 (December 31, 2017 - \$461,521) paid in deposits at the time the Company entered into these contracts. No lease payments were made as at December 31, 2017.

	Amount
Balance, December 31, 2016	\$ -
Present value of minimum lease payments	1,822,177
Foreign exchange adjustment	(36,192)
Balance, December 31, 2017	\$ 1,785,985
Lease payments	(46,708)
Foreign exchange adjustment	38,867
Balance, March 31, 2018	\$ 1,778,144

	March 31, 2018	December 31, 2017
Current portion	\$ 438,115	\$ 370,289
Long term portion	1,340,029	1,415,696
Balance	\$ 1,778,144	\$ 1,785,985

10. SHARE CAPITAL

Common share transactions:

Three Months ended March 31, 2018

- i. During the period ended March 31, 2018, the Company issued 1,061,324 common shares for gross proceeds of \$127,359 in connection the exercise of warrants.
- ii. During the period ended March 31, 2018, the Company issued 333,331 common shares for gross proceeds of \$43,333 in connection with stock options exercised. The fair value of the options exercised was \$40,000 and was transferred from the equity reserves and recorded against share capital.

Three Months ended March 31, 2017

- i. During the three months ended March 31, 2017, the Company issued 991,000 common shares for gross proceeds of \$49,550 in connection with warrants exercised.

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

10. SHARE CAPITAL (continued)

- ii. During the three months ended March 31, 2017, the Company issued 125,000 common shares for gross proceeds of \$16,250 in connection with stock options exercised. Attributed to these stock options, fair value of \$15,000 was transferred from the equity reserves and recorded against share capital.

11. 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 stock 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 5 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to 33.33% on the date of the grant and 33.33% every six months thereafter for a total vesting period of 12 months.

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

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2016	6,950,000	\$ 0.13
Exercised	(536,900)	0.13
Granted	3,830,000	0.71
Cancelled	(250,000)	0.13
Outstanding, December 31, 2017	9,993,100	\$ 0.35
Exercised	(333,331)	0.13
Cancelled	(100,000)	0.13
Outstanding, March 31, 2018	9,559,769	0.36

As at March 31, 2018, the number of stock options outstanding and exercisable was:

Expiry date	Outstanding			Exercisable		
	Number of options	Exercise price	Remaining contractual life (years)	Number of options	Exercise price	Remaining contractual life (years)
Mar 22, 2021	5,829,769	\$ 0.13	2.99	5,829,769	\$ 0.13	2.99
Nov 11, 2022	3,730,000	\$ 0.71	4.62	1,243,333	\$ 0.71	4.62
	9,559,769			7,073,102		

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and others providing similar services. During the three months ended March 31, 2018 and 2017, an amount of \$360,712 and \$60,304, respectively, was expensed as share-based compensation.

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

11. EQUITY RESERVES (continued)

During the three months ended March 31, 2018 and 2017, the Company did not grant any stock options

a) Share purchase warrants

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

	Warrants outstanding	Exercise price
Outstanding, December 31, 2016	26,168,250	\$ 0.07
Exercised	(20,648,215)	0.05
Outstanding, December 31, 2017	5,520,035	\$ 0.12
Exercised	(5,510,294)	0.12
Expired	(9,741)	0.12
Outstanding, March 31, 2018	-	\$ -

12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2018	Three months ended March 31, 2017
Accounts payable and accrued liabilities included in mineral interest and development assets	\$ 476,785	\$ 32,320
Interest of long term debt capitalized as mineral interest and development assets	511,011	95,138
Depreciation capitalized as mineral interest and development assets	161,251	7,195
	Three months ended March 31, 2018	Three months ended March 31, 2017
Interest paid (note 8)	\$ 229,074	\$ -
Income taxes paid	-	-

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

13. LOSS PER SHARE

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Loss attributable to common shareholders	\$ (217,807)	\$ (881,180)
Weighted average number of shares	124,763,629	94,016,995
Basic and diluted loss per share	\$ 0.00	\$ (0.01)

The Company incurred a net loss for the three months ended March 31, 2018 and 2017, 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.

14. RELATED PARTY BALANCES AND TRANSACTIONS

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

Compensation of key management personnel:

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Short-term benefits	\$ 209,915	\$ 115,007
Share-based compensation	241,287	40,998
	\$ 451,202	\$ 156,005

Related party transactions:

As at March 31, 2018, directors and officers or their related companies were owed \$92,110 (December 31, 2017 – \$107,759) included in accounts payable and accrued liabilities mainly in respect to services rendered and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

16. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

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

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

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

16. FINANCIAL INSTRUMENTS (continued)

The carrying value of amounts receivable, accounts payable and accrued liabilities, obligation under share purchase agreement, and due to Nyrstar Mining Ltd. approximated their fair value because of the short-term nature of these instruments. The fair values of the Company's long-term debt and finance lease obligations approximated their carrying value as their interest rates are comparable to market interest rates.

Trade receivables from provisional sales of metals concentrate includes 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 is held through large Canadian, international and foreign national financial institutions. The Company's amounts receivable consist of trade receivables from concentrate sales and taxes receivable from federal government agencies. Trade receivables are held with two large international metals trading companies. The Company mitigates this risk by transacting only with reputable financial institutions and requiring provisional payments of 90% of the value of the concentrate shipped to a single well-known buyer. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk.

b) Liquidity risk

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

c) Market risk

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

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

16. FINANCIAL INSTRUMENTS (continued)

i) Foreign currency risk

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

	Amounts US\$	Amounts MXN\$
Financial assets denominated in foreign currencies	\$ 11,758,491	\$ 177,134,933
Financial liabilities denominated in foreign currencies	(34,742,449)	(137,482,345)
Net exposure	\$ (22,983,958)	\$ 39,652,588

ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At March 31, 2018 and December 31, 2017, the Company's long-term debt are at fixed and floating rates and the Company has not entered, into any financial derivatives or other financial instruments to hedge against this risk. The Company's Loan Agreements bear interest at variable rates. Interest risk exposure is in relation to LIBOR (3M) and (1Y) rates and a variation of 1% on the interest rate would change comprehensive loss by approximately \$168,000. Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

d) Commodity and equity price risk

The Company is exposed to price risk given that its pre-commercial revenue is derived from the sale of metals concentrate, the prices for which have been historically volatile. Consequently, the economic viability of the Company's mineral interest and development assets may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced during the three months ended March 31, 2018, a 1% change in zinc and lead prices would result in an increase/decrease of approximately \$105,419 and \$92,936 respectively in pre-commercial sales (note 6).

17. SEGMENTED INFORMATION

The Company is engaged in mining, exploration, and development of mineral properties in Mexico. The Company operates in one industry and has one reportable segment, which is reviewed by the chief operating decision maker.

Telson Mining Corporation (formerly Telson Resources Inc.)

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

For the three months ended March 31, 2018 and 2017

17. SEGMENTED INFORMATION (continued)

During the three months ended March 31, 2018, the Company sold its pre-commercial production to one customer accounting for 100% of pre-commercial sales. As at March 31, 2018 trade receivables of \$5,955,338 were receivable entirely from this one customer. Pre-commercial sales all were earned within Mexico.

	Canada	Mexico	Total
Property, plant and equipment	\$ -	\$ 12,136,297	\$ 12,136,297
Mineral interest and development assets	-	33,343,356	33,343,356
Balance, March 31, 2018	\$ -	\$ 45,479,653	\$ 45,479,653

	Canada	Mexico	Total
Property, plant and equipment	\$ -	\$ 11,206,938	\$ 11,206,938
Mineral interest and development assets	-	32,415,734	32,415,734
Balance, December 31, 2017	\$ -	\$ 43,622,672	\$ 43,622,672

18. SUBSEQUENT EVENTS

On April 17, 2018, the Company granted a total of 400,000 stock options to a Director and a service provider under the terms of the Company's stock option plan. The stock options have a five-year term from the date of the grant and are exercisable at a price of \$0.73 per share.

On April 18, 2018, the Company granted a total of 900,000 stock options to service providers under the terms of the Company's stock option plan. The stock options have a one-year term from the date of the grant and are exercisable at a price of \$0.80 per share.

On April 23, 2018, the Company granted a total of 50,000 stock options to an employee under the terms of the Company's stock option plan. The stock options have a five-year term from the date of the grant and are exercisable at a price of \$0.72 per share.

On May 23, 2018, the Company announced that effective May 15, 2018, the Company declared commercial production at its 100% owned Campo Morado Mine located in Guerrero State, Mexico, with over 60 days of operational steady state production at 75% of management's targeted mill capacity of 2,500 tonnes per day, achieving zinc recoveries and concentrate grades within management's expectations. Therefore, proceeds from concentrate sales and cost of sales from May 15, 2018, forward will be reflected on its statement of earnings.

On May 28, 2018, the Company announced it has been approved for graduation from Tier 2 issuer status to Tier 1 issuer status by the TSX Venture Exchange. Telson will commence trading as a Tier 1 issuer on the TSX Venture Exchange on Tuesday May 29, 2018. Tier 1 is the premier tier on the TSX Venture Exchange and is reserved for the most advanced issuers with significant financial resources.