



TELSON MINING CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2020 and 2019

UNAUDITED

(Expressed in thousands of Canadian dollars)

TELSON MINING CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW

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

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

August 28, 2020

Telson Mining Corporation

Condensed Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash	\$ 662	\$ 145
Marketable securities (note 3)	4,011	4,653
Accounts receivable (note 4)	1,159	330
Prepaid expenses and deposits	688	416
Inventories (note 5)	4,658	7,355
	11,178	12,899
Non-current assets:		
Mineral interest and development assets (note 6)	14,613	12,335
Property, plant and equipment (note 7)	19,716	19,787
Other assets (note 4)	5,259	6,213
	39,588	38,335
Total assets	\$ 50,766	\$ 51,234
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 29,021	\$ 30,561
Obligation under share purchase agreement (note 6(a))	273	260
Current portion of right of use liabilities (note 10)	1,372	1,457
Debt (note 9)	26,484	24,954
Due to Nyrstar Mining Ltd. short-term (note 6(b) and 8)	12,940	11,905
	70,090	69,137
Non-current liabilities:		
Right of use liabilities (note 10)	627	470
Provision for site reclamation and closure	5,127	5,758
	5,754	6,228
Total liabilities	\$ 75,844	\$ 75,365
Deficiency		
Share capital (note 11)	\$ 60,607	\$ 59,743
Share subscriptions received in advance (note 11 and 19)	196	795
Equity reserves (note 12)	7,679	6,423
Currency translation reserve	1,889	(1,964)
Deficit	(95,449)	(89,128)
Total deficiency	(25,078)	(24,131)
Total liabilities and deficiency	\$ 50,766	\$ 51,234

Commitments (note 18)
Subsequent events (note 19)

Approved by the Board of Directors on August 28, 2020, and signed on the Company's behalf by:

"Ralph Shearing"
Director

"Rory Godinho"
Director

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

Telson Mining Corporation

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenues				
Gross sales	\$ 6,608	\$ 13,043	\$ 14,335	\$ 28,378
Treatment and selling costs	(3,315)	(5,539)	(7,500)	(10,090)
	3,293	7,504	6,835	18,288
Cost of Sales				
Production cost	\$ 3,765	\$ 6,982	\$ 6,907	\$ 13,577
Royalties	98	310	231	620
Accretion of provision for site reclamation and closure	88	402	183	801
Depletion, depreciation and amortization (note 6 and 7)	98	311	207	738
	4,049	8,005	7,528	15,736
Mine operating loss	(756)	(501)	(693)	2,552
General Expenses:				
Consulting fees, wages and benefits (note 15)	\$ 1,005	\$ 1,880	\$ 2,254	\$ 3,350
Legal and professional fees	96	110	131	176
Office, rent and administration	255	575	378	1,030
Amortization of right-of-use assets (note 7 and 10)	12	—	55	—
Regulatory, transfer agent and shareholder information	5	17	21	28
Travel, promotion and investor relations	18	106	127	194
Share-based compensation (note 12(a) and 15)	—	22	—	45
	1,391	2,710	2,966	4,823
Other (income) expense:				
Interest income and other income	\$ 63	\$ (54)	\$ (366)	\$ (57)
Accretion of provision for site reclamation and closure	8	9	16	18
Change in value of marketable securities (note 3)	(326)	(145)	(467)	(340)
Interest expenses and other expenses	288	376	686	987
Foreign exchange loss (gain)	2,371	(782)	2,792	(945)
	2,404	(596)	2,661	(337)
Total loss before income tax	\$ (4,551)	\$ (2,615)	\$ (6,320)	\$ (1,934)
Income tax expense	1	—	1	—
Net loss for the period	\$ (4,552)	\$ (2,615)	\$ (6,321)	\$ (1,934)
Other comprehensive loss				
Items that may be reclassified subsequently to profit or (loss)				
Foreign currency translation adjustment	3,672	(955)	3,853	(1,404)
Total items that may be reclassified subsequently to profit or (loss)	3,672	(955)	3,853	(1,404)
Total comprehensive loss for the period	\$ (880)	\$ (3,570)	\$ (2,468)	\$ (3,338)
Weighted average number of common shares outstanding				
Basic and diluted	159,174,062	139,571,307	155,730,343	139,571,141
Loss per share (note 14)				
Basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.01)

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

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	Currency translation reserve	Deficit	Total
Balance as at December 31, 2018	139,559,152	\$ 59,740	\$ –	\$ 6,379	\$ (1,532)	\$ (59,771)	\$ 4,816
Stock options exercised	20,000	2	–	–	–	–	2
Fair value of stock options allocated to share capital issued on exercise	–	2	–	(2)	–	–	–
Share-based compensation (note 12)	–	–	–	45	–	–	45
Loss and comprehensive loss for the year	–	–	–	–	(1,404)	(1,934)	(3,338)
Balance as at June 30, 2019	139,579,152	\$ 59,744	\$ –	\$ 6,422	\$ (2,936)	\$ (61,705)	\$ 1,525
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 11)	21,424,432	2,084	(2,142)	–	–	–	(58)
Finder's fees (note 11)	361,239	36	–	–	–	–	36
Fair value of warrants issued in private placements	–	(1,256)	–	1,256	–	–	–
Loss and comprehensive loss for the period	–	–	–	–	3,853	(6,321)	(2,468)
Balance as at June 30, 2020	161,364,823	\$ 60,607	\$ 196	\$ 7,679	\$ 1,889	\$ (95,449)	\$ (25,078)

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

Telson Mining Corporation

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash (used in) provided by:				
Operating activities:				
Loss for the period	\$ (4,552)	\$ (2,615)	\$ (6,321)	\$ (1,934)
Items not involving cash:				
Depletion and depreciation	98	311	207	738
Accretion and change of provision for site reclamation and closure	96	402	199	801
Amortization of right-of-use assets	12		55	—
Share-based compensation (note 12)	—	22	—	45
Accrued interest on debt net of interest paid	287	353	685	562
Revaluation of marketable securities	(325)	(145)	(466)	(340)
Changes in non-cash working capital:				
Accounts receivable	176	2,723	36	(779)
Prepaid expenses and deposits	(714)	45	(351)	544
Inventories	2,906	567	1,765	242
Accounts payable and accrued liabilities	(3,379)	2,164	(2,069)	5,999
Cash provided by operating activities	(5,394)	3,827	(6,259)	5,878
Investing activities:				
Plant and equipment, net	28	(1,238)	28	(2,333)
Mineral interest and development assets additions	(497)	(1,531)	(1,352)	(1,792)
Redeemed (purchase) of marketable securities	446	2	446	610
Cash used in investing activities	(23)	(2,767)	(878)	(3,515)
Financing activities:				
Share subscriptions received in advance (note 12 and 19)	392	—	1,543	—
Interest paid	(24)	—	(24)	—
Proceeds in connection to warrants and/or stock options exercised	—	1	—	2
Repayment of right of use liabilities	33	(80)	(6)	(199)
Repayment of debt	—	(1)	—	(907)
Cash used in financing activities	401	(80)	1,513	(1,104)
Effect of foreign exchange rate changes on cash	5,533	(1,049)	6,141	(1,328)
Increase (decrease) in cash	517	(69)	517	(69)
Cash, beginning of the period	145	116	145	116
Cash, end of the period	\$ 662	\$ 47	\$ 662	\$ 47

Supplemental cash flow information (note 13)

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

Telson Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and six months ended June 30, 2020 and 2019

1. NATURE OF OPERATIONS

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

The Company’s principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project (Note 6). Effective May 16, 2018 the Company completed commissioning of Campo Morado mine and declared commercial production. There can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of mineral interests, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. These conditions may cast significant doubt upon the Company’s ability to continue as a going concern.

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

These 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. The Company has a working capital deficit as at June 30, 2020 of \$58,912 (December 31, 2019 of \$56,238) and an accumulated deficit of \$95,449 (December 31, 2019 - \$89,128).

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 follow the same accounting policies and methods of application as the Company’s most recent annual financial statements. These condensed interim consolidated financial statements do not include all of the information required for full consolidated annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2019, 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 August 28, 2020.

(b) Basis of presentation and consolidation

These condensed interim consolidated financial statements include the financial statements of Telson Mining Corporation, and entities controlled by the Company (its subsidiaries). The following is a list of subsidiaries and their geographical locations:

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 six months ended June 30, 2020 and 2019

2. BASIS OF PRESENTATION (continued)

(b) Basis of presentation and consolidation (continued)

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

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

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.

(c) Functional and presentation currency

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

The functional currency of Telson Mining Corporation, the parent entity, is the Canadian dollar. The US dollar was determined to be the functional currency of the primary economic environment in which the Mexican subsidiaries Real de la Bufo, S.A. de C.V. and Minas de Campo Morado, S.A. de C.V. operate, as most of the development, operational and sales activities are denominated or are influenced by the US dollar.

independently from the currency, the figures are presented in thousands except for per tonne amounts, share amounts and per share values.

(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.

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 were the same as those applied to the audited consolidated financial statements as at the year ended December 31, 2019.

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 six months ended June 30, 2020 and 2019

2. BASIS OF PRESENTATION (continued)

(e) Accounting standards adopted during the period

There were no standards effective January 1, 2020 that impacted these condensed interim consolidated financial statements or are expected to have a material effect in the future.

(f) Accounting standards and amendments issued but not yet effective

There were no accounting standards or amendments to existing standards issued but not yet adopted as of January 1, 2020, that are expected to have a material impact in the Company's financial statements in the future.

3. Marketable securities

	Fair Value
Balance, December 31, 2018	\$ 5,296
Redemption of marketable securities	(1,137)
Realized and unrealized gain	526
Foreign exchange movement	(32)
Balance, December 31, 2019	\$ 4,653
Redemption of marketable securities	(446)
Realized and unrealized gain	467
Foreign exchange movement	(663)
Balance, June 30, 2020	\$ 4,011

The Company holds senior bond trusts which are classified as FVTPL and are recorded at fair value using the quoted market prices as at June 30, 2020 and are therefore classified as level 1 within the fair value hierarchy with an interest rate of 11% per annum, payable every six months.

4. ACCOUNTS RECEIVABLE

	June 30, 2020	December 31, 2019
Trade receivables	\$ 352	\$ 130
Value added taxes and other taxes receivable	35	27
Other receivables	772	173
Total accounts receivable	\$ 1,159	\$ 330

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

During the six months ended June 30, 2020 and the year ended December 31, 2019 the Company reclassified valued added taxes receivable in Mexico to long term based on the expected time to collection. As at June 30, 2020, the Company has \$5,259 (December 31, 2019 \$6,213) in valued added taxes receivable included in other assets and classified as non-current assets.

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 six months ended June 30, 2020 and 2019

5. INVENTORIES

	June 30, 2020	December 31, 2019
Materials and supplies	\$ 3,672	\$ 4,967
Concentrates	382	-
Stock pile ore	604	2,388
Total inventories	\$ 4,658	\$ 7,355

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 Bufa, which holds a 100% interest in the Tahuehueto mineral property, located in the state of Durango, Mexico. In 2007, the Company converted into equity a portion of its inter-company debt with Real de la Bufa, thereby increasing its ownership to 99%. A portion of the Tahuehueto mineral property is subject to a 1.6% net smelter return royalty ("NSR").

Pursuant to the Real Agreement, the Company is obligated to make final payments in the amount of \$273 (December 31, 2019 - \$260) US\$200 to some of the Real de la Bufa's shareholders.

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

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

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

b) Campo Morado project

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

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

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

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 six months ended June 30, 2020 and 2019

6. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

b) Campo Morado project (continued)

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

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

Effective May 15, 2018 the Company declared commercial production at Campo Morado mine; therefore, the Company stopped capitalizing costs and expenses related to mineral interest and development assets for this project and since then, all sales and cost of sales are now presented in the statement of loss and comprehensive loss.

As at June 30, 2020 (as described in note 8), the Company has recorded \$12,940 (US\$9.5 million), (December 31, 2019 \$11,905 (US\$9.1 million)) due to Nyrstar Mining Ltd. on the statement of financial position, representing the balance of Campo Morado's loan agreement of US\$5.5 million (December 31, 2019 - US\$5.5 million); the balance of the contingent consideration of US\$2.9 million (December 31, 2019 - US\$2.9 million) and interest payable of US\$1.1 million (December 31, 2019 – US\$0.7 million).

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

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

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

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

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For the three and six months ended June 30, 2020 and 2019

6. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

b) Campo Morado project (continued)

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

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

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

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

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Notes to the Condensed Interim Consolidated Financial Statements

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

For the three and six months ended June 30, 2020 and 2019

6. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets

For the period ended June 30, 2020 and December 31, 2019, the Company capitalized the following acquisition and developments costs:

	Tahuehueto
Balance as at December 31, 2019	\$12,335
Costs incurred:	
Assaying, data and maps	2
Camp cost, equipment and field supplies	101
Fuel and consumables	66
Project general and office expenses	122
Salaries and wages	77
Travel and accommodation	5
Depreciation capitalized	565
Interest capitalized, net	921
Total additions for the year	1,859
Foreign currency movement	419
Balance as at June 30, 2020	\$14,613

For the period ended June 30, 2020 and the year ended December 31, 2019 the Company recorded \$nil for Campo Morado and the Tahuehueto property, in expense recoveries in profit or loss relating to pre-commercial sales which exceeded the capitalized costs.

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 six months ended June 30, 2020 and 2019

6. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

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

	Tahuehueto	Campo Morado	Total
Balance as at December 31, 2018	\$6,393	\$23,829	\$30,222
Costs incurred:			
Assaying, data, and maps	50	-	50
Camp cost, equipment, and field supplies	1,607	-	1,607
Development costs	3,146	-	3,146
Freight and related costs	198	-	198
Fuel and consumables	517	-	517
Supplies, lubricants and other	311	-	311
Project general and office expenses	654	-	654
Geological consulting services	3	-	3
Permitting, environmental and community costs	4	-	4
Salaries and wages	1,477	-	1,477
Travel and accommodation	99	-	99
Depreciation capitalized	861	-	861
Royalties	152	-	152
Interest capitalized, net	1,834	-	1,834
Pre - commercial sales	(4,696)	-	(4,696)
Total additions for the year	6,217	-	6,217
Depletion for the year	-	(642)	(642)
Change of provision for site reclamation and closure	12	(849)	(837)
Impairment	-	(21,712)	(21,712)
Foreign currency movement	(287)	(626)	(913)
Balance as at December 31, 2019	\$12,335	\$ -	\$12,335

Included in mineral interest and development assets is \$921 (December 31, 2019 - \$1,834) of capitalized borrowing costs based on a capitalization rate of 100%.

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Notes to the Condensed Interim Consolidated Financial Statements

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7. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Right of use assets (Note 10)	Total
Cost						
Balance, December 31, 2018	\$ 3,300	\$ 2,228	\$ 10,260	\$ 1,851	\$ 2,315	\$ 19,954
Adjustment on initial application of IFRS 16	-	-	-	-	689	689
Additions	-	-	842	1,684	-	2,526
Dispositions	-	-	(15)	-	-	(15)
Balance, December 31, 2019	\$ 3,300	\$ 2,228	\$ 11,087	\$ 3,535	\$ 3,004	\$ 23,154
Additions	-	-	44	(44)	271	271
Dispositions	-	-	(14)	-	(285)	(299)
Balance, June 30, 2020	\$ 3,300	\$ 2,228	\$ 11,117	\$ 3,491	\$ 2,990	\$ 23,126
Accumulated amortization						
Balance, December 31, 2018	\$ -	\$ 83	\$ 661	\$ -	\$ 240	\$ 984
Amortization for the period	-	170	816	-	422	1,408
Balance, December 31, 2019	\$ -	\$ 253	\$ 1,477	\$ -	\$ 662	\$ 2,392
Amortization for the period	-	130	480	-	162	772
Dispositions	-	-	-	-	(106)	(106)
Balance, June 30, 2020	\$ -	\$ 383	\$ 1,957	\$ -	\$ 718	\$ 3,058
Foreign currency movement						
Balance, December 31, 2019	\$ (171)	\$ (111)	\$ (493)	\$ (94)	\$ (106)	\$ (975)
Balance, June 30, 2020	\$ (55)	\$ (33)	\$ (162)	\$ (61)	\$ (41)	\$ (352)
Net book value						
Balance, December 31, 2019	\$ 3,129	\$ 1,864	\$ 9,117	\$ 3,441	\$ 2,236	\$ 19,787
Balance, June 30, 2020	\$ 3,245	\$ 1,812	\$ 8,998	\$ 3,430	\$ 2,231	\$ 19,716

8. DUE TO NYRSTAR MINING LTD.

As at June 30, 2020 and December 31, 2019, the Company recorded the following amounts due to Nyrstar Mining Ltd:

	Consideration payable due to acquisition	Contingent consideration (Note 6(b))	Total
Balance, December 31, 2018	\$ 7,593	\$ 4,057	\$11,650
Accrued interest	875	-	875
Interest paid	(35)	-	(35)
Foreign exchange adjustment	(391)	(194)	(585)
Balance, December 31, 2019	\$ 8,042	\$ 3,863	\$ 11,905
Accrued interest	494	-	494
Foreign exchange adjustment	351	190	541
Balance, June 30, 2020	\$ 8,887	\$ 4,053	\$ 12,940

Telson Mining Corporation

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8. DUE TO NYRSTAR MINING LTD. (continued)

	Consideration payable due to acquisition	Contingent consideration (Note 6(b))	Total
Current portion	\$ 8,887	\$ 4,053	\$ 12,940
Long term portion	-	-	-
Balance, June 30, 2020	\$ 8,887	\$ 4,053	\$ 12,940

	Consideration payable due to acquisition	Contingent consideration (Note 6(b))	Total
Current portion	\$ 8,042	\$ 3,863	\$ 11,905
Long term portion	-	-	-
Balance, December 31, 2019	\$ 8,042	\$ 3,863	\$ 11,905

On June 12, 2018, the Company renegotiated the terms for the remaining balance of the Campo Morado Agreement and entered into a loan agreement with Nyrstar ("Campo Morado Loan Agreement"). On November 19, 2018, the Company reached an agreement with Nyrstar to amend the terms of the Campo Morado Loan Agreement to mainly reduce the monthly principal repayment from US\$1.0 million to US\$500,000, which also effectively extended the repayment period of the balance owing and the interest rate was kept at a fixed rate of 10% per annum and 12% for any amounts overdue.

As a result of the Company not being able to meet its contractual obligations, on October 11, 2019, the Company received a formal notice of default on regards to the Campo Morado Loan Agreement.

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

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

The Nyrstar Letter Agreement further provides,

- Nyrstar's conditional approval and consent to allow Telson to avoid a cause for default by granting Telson a waiver, forgoing defaults under the Nyrstar Loan Agreement, and deferring interests and principal payments until June 30, 2021.
- This waiver eliminates the Nyrstar Loan Agreements restriction on Telson for disposition of assets, if necessary, to generate cash to allow Telson to repay its loan obligations to Nyrstar.
- Nyrstar agrees to restructure Telson's entire loan debt obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm either of Telson's projects financial viability if,
 - a. the Tahuehueto Project is ramped up or,

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8. DUE TO NYRSTAR MINING LTD. (continued)

- b. the Campo Morado project successfully operates and shows monthly repayment of due obligations to Nyrstar and Trafigura on at least 6 consecutive months in amounts not less to an aggregate of \$300,000 per month, on a pro rata basis based on outstanding amounts due under the Loan Agreement with Nyrstar and the Campo Morado Loan Agreement with Trafigura.
- c. If Telson successfully raises funding in a sufficient amount to fully fund the final construction and ramp up of the Tahuehueto Project, which funding amount and requirements for effective ramp up to be independently verified by a mutually acceptable independent engineering consultant.

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

9. SHORT AND LONG-TERM DEBT

a) Line of Credit

On July 22, 2016, the Company entered into an agreement with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. ("Escorfin"), for a line of credit for up to MXN\$150 million (the "LOC"). The funds drawn down under the LOC accrue interest at a rate of 15% per year, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly installments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly installments following a 36-month grace period and no later than July 28, 2022. The Company may repay any outstanding balance of the LOC at any time without penalty. In case of default of any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The Company has not been charged the 30% interest rate by the lender during the period ended June 30, 2020 and the year ended December 31, 2019. The funds from the LOC are to be applied towards the Company's investment plan established in its completed Internal Scoping Study. The obligations of the Company under the LOC are secured by substantially all the Real de la Bufa's assets, including certain mining concessions.

The Company has drawn down from its LOC a total amount of MXN\$46 million primarily to further its Tahuehueto project. The continuity of the outstanding long-term debt is as follows:

	Amount
Balance, December 31, 2018	\$ 3,380
Withdraw of line of credit	69
Accrued interest	471
Foreign exchange adjustment	(28)
Balance, December 31, 2019	\$3,892
Accrued interest	216
Foreign exchange adjustment	(566)
Balance, June 30, 2020	\$ 3,542

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

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9. SHORT AND LONG-TERM DEBT (continued)

b) Loan Facility Campo

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

Under the terms of the Loan Agreement Campo, the Company is subject to certain covenants, including the Company must maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is not in compliance with the covenants as at December 31, 2019, and 2018 therefore the outstanding balance is presented within current liabilities. The loan is secured by all of the outstanding shares of Minas de Campo Morado, S.A. de C.V. The continuity of the loan is as follows:

	Amount
Balance, December 31, 2018	\$ 4,813
Principal repayments	(215)
Interest paid	(201)
Accrued interest	397
Foreign exchange adjustment	(229)
Balance, December 31, 2019	\$ 4,565
Accrued interest	143
Foreign exchange adjustment	225
Balance, June 30, 2020	\$ 4,933

During the period ended on June 30, 2020 and the year ended December 31, 2019, the company has not been able to meet its contractual obligations with respect to the Loan Agreement Campo. On March 20, 2020, the Company was able to renegotiate with Trafigura new repayment terms as described in d)

c) Loan Facility Real

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

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9. SHORT AND LONG-TERM DEBT (continued)

c) Loan Facility Real (continued)

Under the terms of the Loan Agreement Real, the Company is subject to certain covenants, including the Company must maintain a minimum current ratio of 1:1 without taking into consideration amounts due to Nyrstar Mining Ltd. The Company is not in compliance with the covenants as at June 30, 2020 and December 31, 2019, therefore the outstanding balance is presented within current liabilities. The loan is secured by the Tahuehueto mining concessions and certain property plant and equipment. The continuity of the loan is as follows:

	Amount
Balance, December 31, 2018	\$ 17,210
Interest paid	(777)
Principal repayment	(685)
Accrued interest	1,363
Foreign exchange adjustment	(614)
Balance, December 31, 2019	\$ 16,497
Accrued interest	699
Foreign exchange adjustment	813
Balance, June 30, 2020	\$18,009

d) Trafigura Waiver

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

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

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

Material Terms of the Letter Agreement are as follows:

- 1) Trafigura has provided their approval and consent to allow Telson to avoid a cause for default by granting Telson a waiver, forgoing defaults under the Loan Agreements, and deferring interests and principal payments until June 30, 2021.
- 2) This waiver also eliminates the Loan Agreements restriction on Telson for disposition of assets, if necessary, to generate cash to allow Telson to repay its loan obligations to Trafigura.
- 3) Trafigura agrees to restructure the entire loan debt obligation under terms and conditions to be negotiated on good faith by both parties based on market conditions and updated cash flow projections which confirm the projects financial viability, if

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9. SHORT AND LONG-TERM DEBT (continued)

d) Trafigura Waiver (continued)

- a. the Tahuehueto Project is ramped up or,
 - b. Telson successfully raises funding in sufficient amounts to fully fund the final construction and ramp up of the Tahuehueto Project, which funding amount and requirements for effective ramp up, to be independently verified by a mutually acceptable independent engineering consultant.
 - c. And subject to the fulfillment of the milestones outlined in section 7 below.
- 4) Telson agrees to undertake to conduct a process to market assets for potential sale (the "Transaction") in amounts to repay loan obligations to Trafigura.
 - 5) Telson will transfer all its assets in the Campo Morado Project and its assets in the Tahuehueto Project to a trustee in order to secure the full repayment of the Loan Agreements. Should Telson repay the total debt due to Trafigura under the Loan Agreements, the Trust will be terminated, and all assets held within the Trust will return to Telson. As at the date of these financial statements, the trust has yet to be formed.
 - 6) Telson undertakes to make every effort to,
 - a. Raise funding to repay the full amount of the Loan Agreements and at the same time to,
 - b. Progress the Transaction and should Telson not obtain sufficient funding to repay the Loan Agreement debt before June 30, 2021, Telson intends to perform the sale of one or more of its project assets, to generate sufficient funds to repay the Loan Agreements.
 - 7) Milestones - Telson will take all reasonable commercial efforts to advance the Transaction, adhering to the time schedule outlined below and will provide Trafigura evidence that this process is advancing to the following schedule.
 - a. Before December 31, 2020, Telson shall have received at least three (3) letters of intent from potential buyers regarding the Transaction.
 - b. Before March 31, 2021, Telson shall have received at least three (3) binding offers from potential buyers regarding the Transaction.
 - c. It is recognized that a breach of the Letter Agreement shall not have occurred should Telson fail to receive the letters of intent and binding offers as contemplated in the above sections as a result of market conditions which fail to generate bona fide interest in the purchase of the assets so long as Telson has in good faith made all commercially reasonable efforts to advance the Transaction and can provide evidence of such efforts.
 - d. No later than June 30, 2021, the corresponding sales and purchase agreement shall be executed between Telson and the relevant purchaser if Telson has not either, repaid its loan debt obligations or satisfied the conditions outlined within section 3 above.
 - 8) In partial consideration of the waiver granted by Trafigura, Telson shall issue to Trafigura 12,000,000 warrants exercisable into one common share for each warrant at an exercise price of \$0.175 per share over a term of 36 months. If any of the Campo Morado Project or the Tahuehueto Project are sold and Telson repays its total debt under the Loan Agreements within the timeline proposed above the warrants will expire and thereby be canceled.

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9. SHORT AND LONG-TERM DEBT (continued)

e) Accendo Loan

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

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

- Loan facility amount - US\$ 12 Million
- Repayment term - 3 years with a one-year grace period on principal
- Repayable in 24 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- Telson to issue, subject to TSX Venture Exchange approval, 15 Million bonus warrants at an exercise price of \$0.09/share for a period of 48 months. The bonus warrants are to be issued in lieu of a work fee but subject to cancelation if the loan facility does not close.

The loan facility is subject to final due diligence of Accendo and as at June 30, 2020, the Company has not received any of these funds.

10. RIGHT OF USE ASSETS AND LEASE LIABILITIES

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

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

The continuity of lease liabilities for the period ended June 30, 2020 is as follows:

	Amount
Balance lease liabilities, December 31, 2018	\$ 1,547
Lease liabilities recognized as of January 1, 2019	689
Lease payments	(365)
Interest expense	177
Foreign exchange adjustment	(121)
Balance lease liabilities, December 31, 2019	\$ 1,927
New leases	271
Cancelation of leases	(160)
Lease payments	(85)
Interest expense	55
Foreign exchange adjustment	(9)
Balance lease liabilities, June 30, 2020	\$1,999

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

	June 30, 2020	December 31, 2019
Current portion	\$ 1,372	\$ 1,457
Long term portion	627	470
Balance	\$ 1,999	\$ 1,927

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

	Amount
2020	\$ 1,220
2021	303
2022	355
2023	124
Thereafter	111
Total minimum lease payments	2,113
Present value of minimum lease payments	(114)
Long term lease obligations June 30, 2020	\$ 1,999

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

The continuity of right of use assets for the period ended June 30, 2020 is as follows:

	Machinery & equipment	Offices	Vehicles	Right of use assets (Note 7)
Cost				
Balance, January 1, 2019	\$ 2,315	\$ -	\$ -	\$ 2,315
Adjustment on initial application of IFRS 16	-	536	153	689
Balance, December 31, 2019	2,315	536	153	3,004
Additions	-	271	-	271
Dispositions	-	(285)	-	(285)
Balance, June 30, 2020	\$ 2,315	\$ 522	\$ 153	\$ 2,990
Accumulated amortization				
Balance, January 1, 2019	\$ 240	\$ -	\$ -	\$ 240
Amortization for the year	234	142	46	422
Balance, December 31, 2019	\$ 474	\$ 142	\$ 46	\$ 662
Additions	106	37	19	162
Dispositions	-	(106)	-	(106)
Balance, June 30, 2020	\$ 580	\$ 73	\$ 65	\$ 718
Foreign currency movement				
Balance, December 31, 2019	\$ (61)	\$ (35)	\$ (10)	\$ (106)
Balance, June 30, 2020	\$ (32)	\$ (6)	\$ (3)	\$ (41)
Net book value				
Balance, December 31, 2019	\$ 1,780	\$ 359	\$ 97	\$ 2,236
Balance, June 30, 2020	\$ 1,703	\$ 443	\$ 85	\$ 2,231

During the period ended June 30, 2020 the Company recorded \$1 (December 31, 2019 \$52) in relation to short term and low value leases.

11. SHARE CAPITAL

Common share transactions:

Six months ended June 30, 2020

- i. On May 27, 2020, the Company closed a non-brokered private placement (the "Private Placement") which consisted of 21,424,432 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$2,142. Each Unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.25 within twenty-four (24) months from closing. All securities issued under the Private Placement are subject to a hold period expiring four months and one day after the closing date. 361,239 units were issued as finder's fee.

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

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11. SHARE CAPITAL (continued)

- ii During the six months ended June 30, 2020, the Company received gross proceeds of \$196 in connection with a non-brokered private placement that closed on July 15, 2020 (see note 19).

Six months ended June 30, 2019

- i During the period ended June 30, 2019, the Company issued 20,000 common shares for gross proceeds of \$2 in connection with stock options exercised. The fair value of the options exercised was \$2 and was transferred from the equity reserves and recorded against share capital.

12. EQUITY RESERVES

a) Share-based compensation

The Company has a stock option plan (the “Plan”) providing for the issuance of stock options to directors, officers, employees and other service providers enabling them to acquire up to 10% of the issued and outstanding common stocks of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the Board of Directors. Stock options can be granted for a maximum term of 10 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to 33.33% on the date of the grant and 33.33% every six months thereafter for a total vesting period of 12 months.

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

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2018	10,637,166	0.42
Cancelled	(1,050,000)	0.80
Exercised	(20,000)	0.13
Outstanding, December 31, 2019 and June 30, 2020	9,567,166	\$ 0.39

As at June 30, 2020 and December 31, 2019, 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
March 22, 2021	5,437,166	\$0.13	0.73	5,437,166
November 11, 2022	3,680,000	\$0.71	2.37	3,680,000
April 16, 2023	400,000	\$0.77	2.79	400,000
April 23, 2023	50,000	\$0.72	2.81	50,000
	9,567,166			9,567,166

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12. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

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 six months ended June 30, 2020 an amount of \$nil (2019 - \$45) was expensed as share-based compensation. The portion of share-based compensation recorded is based on the vesting schedule of the options.

During the six months ended June 30, 2020 and 2019, the Company did not grant 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, 2018	5,520,035	\$ 0.12
Exercised	(5,510,294)	0.12
Issued	4,562,401	1.25
Expired	(9,741)	0.12
Outstanding, December 31, 2019	4,562,401	\$ 1.25
Issued	10,892,836	0.25
Outstanding, June 30, 2020	15,455,237	\$ 0.55

Expiry date	Granted	Outstanding	
		Exercise price	Remaining contractual life (years)
October 9, 2020	4,562,401	\$ 1.25	0.28
February 4, 2022	9,729,221	\$ 0.25	1.60
May 27, 2022	1,163,615	\$ 0.25	1.91

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13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Accounts payable and accrued liabilities included in mineral interest and development assets	\$ 638	\$ 175	\$ 918	\$ 1,177
Interest of long term debt capitalized as mineral interest and development assets	444	503	921	993
Depreciation capitalized as mineral interest and development assets	143	272	403	541
Right of use of assets amortization capitalized	74	-	162	-
Fair value of stock options exercised	-	1	-	2

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Interest paid (note 8 and 9)	\$ -	\$ 392	\$ -	\$ 597

14. LOSS PER SHARE

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net loss attributable to common shareholders	\$ (4,452)	\$ (2,615)	\$ (6,321)	\$ (1,934)
Weighted average number of shares – Basic and diluted	159,174,062	139,571,307	155,730,343	139,571,141
Basic and diluted loss per share	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.01)

The Company incurred a net loss for the period ended June 30, 2020, therefore all outstanding stock options and share purchase warrants have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

15. RELATED PARTY BALANCES AND TRANSACTIONS

a) Compensation of key management personnel:

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

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15. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

a) Compensation of key management personnel (continued)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Short-term benefits	\$ 142	\$ 90	\$ 232	\$ 448
Share-based compensation	-	19	-	40
	\$ 142	\$ 109	\$ 232	\$ 488

b) Related party balances:

As at June 30, 2020, directors and officers or their related companies were owed \$4,020 (December 31, 2019 – \$4,503) included in accounts payable and accrued liabilities mainly in respect to compensation and other labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

As at June 30, 2020, directors and officers or their related companies owed the Company \$nil (December 31, 2019 – \$15) included in prepaid expenses and deposits.

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

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin (Note 9a). 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:

	June 30, 2020	December 31, 2019
Current portion of the debt	\$ 3,542	\$ 3,892
Long term portion of the debt	-	-
Balance	\$ 3,542	\$ 3,892

During the six months ended June 30, 2020, the Company incurred interest in the amount of \$659 (December 31, 2019 \$638) from which \$nil were paid (December 31, 2019 \$nil).

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

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For the three and six months ended June 30, 2020 and 2019

16. FINANCIAL INSTRUMENTS (continued)

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

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

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

a) Credit risk

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

b) Liquidity risk

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

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.

Telson Mining Corporation

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16. FINANCIAL INSTRUMENTS (continued)

c) Market risk (continued)

	Amounts US Dollars	Amounts Mexican Peso
Financial assets denominated in foreign currencies	\$ 783	\$ 8,400
Financial liabilities denominated in foreign currencies	(44,008)	(31,007)
Net exposure	\$ (43,225)	\$ (22,607)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$4,322.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$2,261.

ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At December 31, 2019 and 2018, the Company's long-term debt are at fixed and floating rates and the Company has not entered, into any financial derivatives or other financial instruments to hedge against this risk. The Company's loan agreements bear interest at variable and fixed rates. Interest risk exposure is in relation to variable rates which are lined to LIBOR (3M) and (1Y) rates and a variation of 1% on the interest rate would change comprehensive loss by approximately \$227. Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

d) Commodity and equity price risk

The Company is exposed to commodity and equity price risk given as its revenue is derived from the sale of metal concentrates, the prices for which have been historically volatile. Consequently, the economic viability of the Company's mineral interest and development assets may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced at the year ended December 31, 2019, a 1% change in zinc and lead prices would result in an increase/decrease of approximately \$27 and \$7 respectively in revenues.

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 four reportable segments. The operating segments are managed separately based on the nature of operations. Mining operations consists of the Campo Morado mine, which is currently operational and producing, and development stage asset for the Tahuehueto project.

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17. SEGMENTED INFORMATION (continued)

Information by geographical areas is as follows:

	Canada	Mexico	Total
Current assets	\$ 54	\$ 11,124	\$ 11,178
Non-current assets			
Mineral interest and development assets	-	14,613	14,613
Property, plant and equipment	-	19,716	19,716
Other assets	-	5,259	5,259
Total assets, June 30, 2020	\$ 54	\$ 50,712	\$ 50,766
Current liabilities	\$ 14,133	\$ 55,957	\$ 70,090
Non-current liabilities	-	5,754	5,754
Total liabilities, June 30, 2020	\$ 14,133	\$ 61,711	\$ 75,844
	Canada	Mexico	Total
Current assets	\$ 62	\$ 12,837	\$ 12,899
Non-current assets			
Mineral interest and development assets	-	12,335	12,335
Property, plant and equipment	-	19,787	19,787
Other assets	-	6,213	6,213
Total assets, December 31, 2019	\$ 62	\$ 51,172	\$ 51,234
Current liabilities	\$ 12,982	\$ 56,155	\$ 69,137
Non-current liabilities	-	6,228	6,228
Total liabilities, December 31, 2019	\$ 12,982	\$ 62,383	\$ 75,365

During the six months ended June 30, 2020 and 2019, the Company sold its commercial production to one customer accounting for 100% of commercial sales. As at June 30, 2020 trade receivables of \$352 (December 31, 2019 \$130) were receivable entirely from this one customer. All revenue was earned within Mexico.

Operating segments are as follows:

June 30, 2020	Campo Morado Mexico	Real de la Bufa Mexico	Other Mexico	Telson Mining Canada	Total
Revenue, net	\$6,835	\$ -	\$ -	\$ -	\$6,835
Production costs and royalties	(7,138)	-	-	-	(7,138)
Accretion of provision for site reclamation and closure	(183)	-	-	-	(183)
Depletion and amortization	(207)	-	-	-	(207)
Mine operating loss	(693)	-	-	-	(693)
General expenses	(1,849)	431	-	(686)	(2,966)
Other income (expenses)	(491)	3,371	(4,029)	(1,513)	(2,662)
Total loss for the period	\$ (3,033)	\$ 2,940	\$ (4,029)	\$ (2,199)	\$ (6,321)

Telson Mining Corporation

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For the three and six months ended June 30, 2020 and 2019

17. SEGMENTED INFORMATION (continued)

June 30, 2019	Campo Morado Mexico	Real de la Bufa Mexico	Other Mexico	Telson Mining Canada	Total
Revenue, net	\$18,288	\$ -	\$ -	\$ -	\$18,288
Production costs and royalties	(14,197)	-	-	-	(14,197)
Accretion of provision for site reclamation and closure	(801)	-	-	-	(801)
Depletion and amortization	(738)	-	-	-	(738)
Mine operating earnings	2,552	-	-	-	2,552
General expenses	(3,043)	(859)	(88)	(833)	(4,823)
Other (income) expenses	(581)	135	283	500	337
Total loss for the period	\$ (1,072)	\$ (724)	\$ 195	\$ (333)	\$ (1,934)

Pre-commercial production revenues are capitalized to mineral interest and development assets up to the total of operating costs and expenses.

18. COMMITMENTS

At June 30, 2020, the Company has the following commitments:

	Within 1 year	Between 1 and 5 years	More than 5 years	Total June 30, 2020
Lease payments offices	\$ 68	\$ 379	\$ -	\$ 447
Lease payments machinery and equipment	1,130	346	-	1,476
Vehicles	22	53	-	75
Loans	35,223	4,052	-	39,275
Provision for site reclamation and closure	-	-	5,127	5,127
	\$ 36,443	\$ 4,830	\$ 5,127	\$ 46,400

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

a) VPP – Variable Purchase Price

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:

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

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18. COMMITMENTS (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.

In regards, the variable purchase price, the company paid \$nil for the periods of six months ended on June 30, 2020 and 2019.

b) Royalties

The Campo Morado Project is subject to a royalty between 2% and 3% of the net value of liquidation over the minerals extracted during the term of existence of the mining concession to the Servicio Geológico Mexicano ("SGM")

c) Off-take agreements

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

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

19. SUBSEQUENT EVENTS

On July 15, 2020, the company closed a non-brokered private placement with the Company issuing 13,996,145 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$1,399,615. Each Unit is comprised of one common share and one half of one whole transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.15 within twenty-four (24) months from closing. All securities issued under the Private Placement are subject to a hold period expiring four months and one day after the closing date on November 10, 2020.