



TELSON MINING CORPORATION
(Formerly Telson Resources Inc.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 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 and Nine Months Ended September 30, 2018 and 2017

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 - Continuous Disclosure Obligations of The Canadian Securities Administrators, if an auditor has not performed a review of the condensed interim consolidated financial statements, these must be accompanied by a notice indicating that an auditor has not reviewed the interim financial statement.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of Company's management.

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 Chartered Professional Accountants of Canada for a review of interim financial statements by the entity's auditor.

November 29, 2018

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 1,243,342	\$ 11,997,057
Marketable securities (note 4)	4,797,877	–
Accounts receivable (note 5)	3,628,436	7,000,641
Prepaid expenses and deposits	649,360	154,891
Inventory (note 6)	4,989,304	2,224,518
	15,308,319	21,377,107
Non-current assets:		
Mineral interest and development assets (note 7)	27,913,764	32,415,734
Property, plant and equipment (note 8)	16,795,929	11,206,938
Total assets	\$ 60,018,012	\$ 64,999,779
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 18,386,537	\$ 8,870,782
Advances for private placement	6,127,012	–
Obligation under share purchase agreement (note 7(a))	258,900	252,276
Current portion of finance lease obligation (note 11)	476,969	370,289
Current portion of the long-term debt (note 10)	7,511,769	2,480,406
Due to Nyrstar Mining Ltd. short-term (note 3, 7(b) and 9)	9,830,468	25,764,936
	42,591,655	37,738,689
Non-current liabilities:		
Long-term debt (note 10)	11,065,406	18,068,101
Finance lease obligation (note 11)	1,104,442	1,415,696
Provision for site reclamation and closure	6,220,154	5,946,571
Due to Nyrstar Mining Ltd. (note 3, 7(b) and 9)	2,824,375	–
Total liabilities	\$ 63,806,032	\$ 63,169,057
Equity		
Share capital (note 12)	\$ 55,597,294	\$ 54,757,074
Equity reserves (note 13)	3,471,288	1,942,238
Currency translation reserve	(5,889,103)	(1,338,941)
Deficit	(56,967,499)	(53,529,649)
Total equity	(3,788,020)	1,830,722
Total liabilities and equity	\$ 60,018,012	\$ 64,999,779

Subsequent events (note 19)

Approved by the Board of Directors on November 29, 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 Income or Loss and Comprehensive Income or Loss

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenues				
Gross sales	\$ 12,258,978	\$ –	\$ 21,236,253	\$ –
Treatment and selling costs	(2,043,420)	–	(3,514,367)	–
	10,215,558	–	17,721,886	–
Cost of Sales				
Production cost	\$ 12,847,121	\$ 1,861,004	\$ 18,775,247	\$ 1,861,004
Royalties	339,800	–	830,852	–
Accretion of provision for site reclamation and closure	127,608	–	188,468	–
Depletion, depreciation and amortization	68,766	1,218,653	108,001	1,218,653
	13,383,295	3,079,657	19,902,568	3,079,657
Mine operating loss	(3,167,737)	(3,079,657)	(2,180,682)	(3,079,657)
General Expenses:				
Consulting fees, wages and benefits (note 16)	\$ 491,195	\$ 226,845	\$ 1,416,561	\$ 626,359
Legal and professional fees	171,175	7,963	496,058	169,668
Office, rent and administration	274,803	110,925	569,468	278,703
Regulatory, transfer agent and shareholder information	5,774	(21,719)	56,653	22,312
Travel, promotion and investor relations	138,612	120,936	750,333	254,349
Share-based compensation (note 13(a) and 16)	364,824	–	1,620,435	60,304
	1,446,383	444,950	4,909,508	1,411,695
Other (income) expense:				
Interest income and other income	\$ (28,324)	\$ (1,472)	\$ (374,575)	\$ (1,937)
Bargain purchase loss (gain)	–	36,513,456	–	(140,761,070)
Accretion of provision for site reclamation and closure	2,103	–	188,696	–
Change in value of marketable securities	24,290	–	24,290	–
Interest expenses and other expenses	516,559	43,327	622,192	183,047
Foreign exchange loss (gain)	(4,379,126)	(2,226,056)	(4,112,943)	(1,674,639)
	(3,864,498)	34,329,255	(3,652,340)	(142,254,599)
Total (loss) income for the period	\$ (749,622)	\$ (37,853,862)	\$ (3,437,850)	\$ 137,763,247
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation adjustment	(4,587,593)	–	(4,550,162)	–
Total items that may be reclassified subsequently to profit or loss	(4,587,593)	–	(4,550,162)	–
Total comprehensive (loss) income for the period	\$ (5,337,215)	\$ (37,853,862)	\$ (7,988,012)	\$ 137,763,247
Weighted average number of shares outstanding				
Basic	130,266,766	94,016,995	128,056,979	93,891,614
Diluted	130,266,766	118,667,559	128,056,979	118,542,178
(Loss) income per share (note 15)				
Basic	\$ (0.01)	\$ (0.40)	\$ (0.03)	\$ 1.47
Diluted	\$ (0.01)	\$ (0.32)	\$ (0.03)	\$ 1.16

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 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)
Shares issued pursuant private placement	6,683,236	3,623,872	-	-	-	3,623,872
Conversion of convertible debenture into shares	3,448,774	1,069,120	-	-	-	1,069,120
Share purchase warrants exercised	1,501,443	82,860	-	-	-	82,860
Stock options exercised	186,900	24,297	-	-	-	24,297
Fair value of stock options allocated to share capital issued on exercise	-	22,428	(22,428)	-	-	-
Share-based compensation (note 11(a) and 14)	-	-	60,304	-	-	60,304
Income and comprehensive income for the period	-	-	-	-	137,763,247	137,763,247
Balance as at September 30, 2017	104,721,348	\$ 53,676,099	\$ 792,788	\$ -	\$ 86,428,055	\$ 140,896,942
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	5,510,294	661,236	-	-	-	661,236
Stock options exercised	705,934	91,772	-	-	-	91,772
Fair value of stock options allocated to share capital issued on exercise	-	87,212	(87,212)	-	-	-
Share-based compensation (note 11(a) and 14)	-	-	1,616,262	-	-	1,616,262
Loss and comprehensive loss for the period	-	-	-	(4,550,162)	(3,437,850)	(7,988,012)
Balance as at September 30, 2018	130,434,348	\$ 55,597,294	\$ 3,471,288	\$ (5,889,103)	\$ (56,967,499)	\$ (3,788,020)

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Cash (used in) provided by:				
Operating activities:				
(loss) Income for the period	\$ (749,622)	\$ (37,853,862)	\$ (3,437,850)	\$ 137,763,247
Items not involving cash:				
Depletion, depreciation and amortization	68,766	1,233,899	108,001	1,253,110
Accretion of provision for site reclamation and closure	129,711	1,968	377,164	5,807
Unrealized foreign exchange	(4,379,126)	(1,741,615)	(4,112,943)	(1,422,183)
Share-based compensation (note 13a))	364,824	-	1,620,435	60,304
Accrued interest of long term debt	1,041,126	171,376	1,456,088	505,712
Revaluation of marketable securities	24,290	-	24,290	-
Bargain purchase loss (gain)	-	36,513,456	-	(140,761,070)
Changes in non-cash working capital:				
Accounts receivable	1,504,651	(1,496,479)	3,705,036	(1,592,607)
Prepaid expenses and deposits	2,206,731	(399,462)	(477,231)	(396,862)
Inventory	1,055,211	-	(2,529,448)	-
Accounts payable and accrued liabilities	3,044,361	2,167,338	3,299,525	2,524,630
Cash provided by (used in) operating activities	4,310,923	(1,403,381)	33,067	(2,059,912)
Investing activities:				
Plant and equipment additions	(3,101,304)	(29,872)	(5,693,706)	(1,547,542)
Mineral interest and development assets additions, net of recoveries and depreciation	1,326,261	(203,960)	10,341,987	(540,974)
Acquisition of Campo Morad, net of cash acquired (note 3)	-	-	-	(4,626,168)
Purchase of marketable securities	(4,822,167)	-	(4,822,167)	-
Cash used in investing activities	(6,597,210)	(233,832)	(173,886)	(6,714,684)
Financing activities:				
Proceeds from issuance of common shares, net of share issue costs (note 12)	-	(24,474)	-	4,692,992
Interest paid	(297,941)	(86,447)	(894,752)	(86,447)
Proceeds in connection to warrants and/or stock options exercised	32,501	41,357	753,008	107,157
Advances for private placement	6,127,012	-	6,127,012	-
Repayment Nyrstar Mining Ltd	(3,496,573)	-	(14,323,169)	-
Repayment of long term debt	(1,387,352)	6,063,425	(3,565,902)	6,063,425
Cash provided by (used in) financing activities	977,647	5,993,861	(11,903,803)	10,777,127
Effect of foreign exchange rate changes on cash	1,341,344	8,958	1,290,907	135,328
Decrease in cash	32,704	4,365,606	(10,753,715)	2,137,859
Cash, beginning of the period	1,210,638	261,867	11,997,057	2,489,614
Cash, end of the period	\$ 1,243,342	\$ 4,627,473	\$ 1,243,342	\$ 4,627,473

Supplemental cash flow information (note 14)

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 and nine months ended September 30, 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 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”.

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.

The Company has adopted and applied IFRS 9 and 15 since January 1, 2018, please refer to changes in accounting policies.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 29, 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 the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2017.

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:

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 and nine months ended September 30, 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 of the Company is the Canadian dollar; therefore, references to \$ means Canadian dollars, US\$ are to US dollars and MXN\$ to Mexican pesos.

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 7 and commenced mine commissioning activities, and is now generating US 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 most 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.

Changes in accounting policies

These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2017, except for the adoption of IFRS 9 and 15 which became effective January 1, 2018. The adoption of these IFRS and their impact on these Financial Statements are discussed below.

IFRS 9 – Financial Instruments ("IFRS 9")

Effective January 1, 2018 the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The adoption of this standard did not impact the Company's financial statements as currently the Company does not hold any financial instruments for which the underlying accounting was impacted.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

Effective January 1, 2018 the Company adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. On transition date the standard did not impact the Company's financial statements, as the Company did not earn revenues until the current year.

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 and nine months ended September 30, 2018 and 2017

2. BASIS OF PRESENTATION (continued)

Changes in accounting policies (continued)

The following is the Company's new accounting policy for revenue from contracts with customers under IFRS 15:

Sale of Metal Concentrates

The Company recognizes revenue from contracts with customers for the sale of metal concentrates at the point in time when it transfers control of the concentrates over to the customers, which occurs upon physical delivery. Revenues are measured based on 1) the market metal prices expected at time of the settlement, and 2) the estimates of the mineral contents (assays) and weights; both are subject to adjustment until the final settlement date. At the end of each reporting period, the amounts receivable are marked-to-market using the most up-to-date market prices for the settlement. These variations between the sales price recorded at the initial recognition date and the actual final sales price recorded at the settlement date are caused by changes in market prices, assay results and weights. The settlement receivable is recorded at fair value each period until final settlement occurs, with changes in fair value recorded as a component of revenue. Revenue is also recorded net of treatment, penalties and refining charges of the counterparties under the terms of the relevant sales agreements.

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. The Company's critical accounting judgments and estimates were presented in note 2 of the audited annual consolidated financial statements for the year ended December 31, 2017 and have been consistently applied in the preparation of these condensed interim consolidated financial statements. No new judgements were applied for the period ended September 30, 2018.

New accounting standards issue but not yet effective

In January 2016, the IASB published a new accounting standard, IFRS 16 – Leases ("IFRS 16") which supersedes IAS 17 – Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, has also been applied. The Company is currently considering the impact, if any, of the standard on its future consolidated financial statements.

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 (US\$10 million paid).

On June 12, 2018, the Company renegotiated the terms of the last payment for the remaining balance of US\$8.5 million (note 9) and entered into a loan agreement with Nyrstar ("Campo Morado Loan Agreement"), under this agreement Nyrstar agreed to lend Telson the principal sum of US\$8.5 million with the following terms and conditions:

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 and nine months ended September 30, 2018 and 2017

3. ACQUISITION OF CAMPO MORADO (continued)

On the 13th day of the following month starting July 13th, 2018, the Company will repay Nyrstar:

- a minimum of US\$1 million; plus
- an interest of 10% per annum; plus
- 70% of the monthly free cash flow generated by Telson, and
- any monthly excess cash balance above US\$500,000.

On November 19, 2018, the Company and Nyrstar agreed 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. This change also effectively extended the repayment period of the remaining balance of US\$6.5 million, as described in note 19.

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:

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

The Company maintains the right under the Campo Morado 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.

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.

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	\$ -

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 and nine months ended September 30, 2018 and 2017

4. Marketable securities

	September 30, 2018
	Fair Value
Opening balance, December 31, 2017	\$ -
Purchase of marketable securities	4,859,202
Redeem of marketable securities	(166,710)
Realized and unrealized loss	(24,290)
Foreign exchange adjustment	129,675
Total marketable securities	\$ 4,797,877

The Company holds money market investment funds which are classified as FVTPL and are recorded at fair value using the quoted market prices as at September 30, 2018 and are therefore classified as level 1 within the fair value hierarchy.

5. ACCOUNTS RECEIVABLE

	September 30, 2018	December 31, 2017
Trade receivables	\$ 217,287	\$ 4,293,360
Value added taxes and other taxes receivable	2,970,876	2,280,744
Other receivables	440,273	426,537
Total accounts receivable	\$ 3,628,436	\$ 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 properties.

6. INVENTORIES

	September 30, 2018	December 31, 2017
Ore in-process	\$ 1,213,137	\$ 1,015,227
Concentrates	66,153	202,280
Materials and supplies	3,710,014	1,007,011
Total inventories	\$ 4,989,304	\$ 2,224,518

7. 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 \$258,900 (December 31, 2017 - \$252,276 (US\$200,000)) 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.

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 and nine months ended September 30, 2018 and 2017

7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

a) Tahuehueto project (continued)

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 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:

- 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.

As at September 30, 2018 (as described in note 9), the Company has recorded \$12,654,843 (US\$9,775,854), (December 31, 2017 \$25,764,936 (US\$20,500,000)) due to Nyrstar Mining Ltd. on the statement of financial position, representing the balance of Campo Morado's loan agreement of US\$6.5 million (December 31, 2017 - US\$16.5 million); the balance of the contingent consideration of US\$3.1 million (December 31, 2017 - US\$4 million) and interest payable of US\$0.1 million (December 31, 2017 - nil).

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7. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

c) Costs capitalized as mineral interest and development assets

For the periods ended September 30, 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	30,217	-	30,217
Camp cost, equipment and field supplies	938,972	3,050,528	3,989,500
Development costs	534,313	-	534,313
Ore processing	942,334	-	942,334
Freight and related costs	1,411,177	1,551,030	2,962,207
Fuel and consumables	394,310	639,823	1,034,133
Supplies, lubricants and other	-	3,941,627	3,941,627
Electricity	-	936,566	936,566
Project general and office expenses	199,113	1,383,915	1,583,028
Geological consulting services	(285)	223,774	223,489
Permitting, environmental and community costs	271,531	-	271,531
Salaries and wages	995,880	2,278,802	3,274,682
Travel and accommodation	47,529	2,540	50,069
Depreciation capitalized	390,339	106,040	496,379
Royalties	66,348	355,241	421,589
Interest capitalized	1,061,190	161,487	1,222,677
Pre - commercial sales	(4,317,747)	(21,979,726)	(26,297,473)
Total additions for the period	2,965,221	(7,348,353)	(4,383,132)
Foreign currency movement	129,861	(248,699)	(118,838)
Balance as at September 30, 2018	\$ 3,095,082	\$ 24,818,682	\$ 27,913,764

Effective May 15th, 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 presented in the statement of income or loss.

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7. 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, 2016	\$ 576,525	\$ -	\$ 576,525
Costs incurred:			
Acquisition costs (note 3)	-	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 \$1,222,677 (December 31, 2017 - \$812,991) of capitalized borrowing costs based on a capitalization rate of 100%.

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

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8. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine plant & infrastructure	Machinery & equipment	Construction in progress	Finance leases (Note 11)	Total
Cost						
Balance, December 31, 2017	\$ 3,300,992	\$ 2,228,009	\$ 4,009,611	\$ -	\$ 2,315,335	\$ 11,853,947
Additions	-	-	4,936,342	757,364	-	5,693,706
Balance, September 30, 2018	\$ 3,300,992	\$ 2,228,009	\$ 8,945,953	\$ 757,364	\$ 2,315,335	\$ 17,547,653
Accumulated amortization						
Balance, December 31, 2017	\$ -	\$ 36,234	\$ 96,066	\$ -	\$ -	\$ 132,300
Amortization for the year	-	53,228	362,026	-	-	415,254
Balance, September 30, 2018	\$ -	\$ 89,462	\$ 458,092	\$ -	\$ -	\$ 547,554
Foreign currency movement						
Balance, December 31, 2017	(173,184)	(108,972)	(188,351)	-	(44,202)	(514,709)
Balance, September 30, 2018	(56,983)	(37,945)	(67,866)	-	(41,376)	(204,170)
Net book value						
Balance, December 31, 2017	\$ 3,127,808	\$ 2,082,803	\$ 3,725,194	\$ -	\$ 2,271,133	\$ 11,206,938
Balance, September 30, 2018	\$ 3,244,009	\$ 2,100,602	\$ 8,419,995	\$ 757,364	\$ 2,273,959	\$ 16,795,929

9. DUE TO NYRSTAR MINING LTD.

As at September 30, 2018, the Company has recorded the following amounts due to Nyrstar Mining Ltd.:

	Consideration payable due to acquisition (note 3)	Contingent consideration (note 3)	Total
Balance, December 31, 2016	\$ -	\$ -	\$ -
Consideration payable due to acquisition of Campo Morado	21,842,700	5,295,200	27,137,900
Foreign exchange adjustment	(1,098,900)	(274,064)	(1,372,964)
Balance, December 31, 2017	\$ 20,743,800	\$ 5,021,136	\$ 25,764,936
Consideration repayment (US\$8M)	(10,653,600)	-	(10,653,600)
Consideration balance converted into a loan	(11,319,544)	-	(11,319,544)
Campo Morado Loan Agreement (US\$8.5M)	11,319,544	-	11,319,544
Loan principal repayment (US\$2M)	(2,617,000)	-	(2,617,000)
Contingent consideration repayment	-	(1,052,569)	(1,052,569)
Accrued interest	122,884	-	122,884
Interest paid	(185,518)	-	(185,518)
Foreign exchange adjustment	1,125,402	150,308	(1,257,710)
Balance, September 30, 2018	\$ 8,535,968	\$ 4,118,875	\$ 12,654,843

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9. DUE TO NYRSTAR MINING LTD. (continued)

	Consideration payable due to acquisition (note 3)	Contingent consideration (note 3)	Total
Current portion	\$ 7,241,468	\$ 1,035,600	\$ 8,277,068
Long term portion	1,294,500	3,083,275	4,377,775
Balance, December 31, 2017	\$ 8,535,968	\$ 4,118,875	\$ 12,654,843

10. 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 has repaid MXN\$30,000,000 at September 30, 2018. The continuity of the outstanding long-term debt is as follows:

	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 repayments	(2,000,353)
Accrued interest	362,815
Foreign exchange adjustment	541,966
Balance, September 30, 2018	\$ 3,564,265

	September 30, 2018	December 31, 2017
Current portion	\$ 1,155,828	\$ 519,156
Long term portion	2,408,437	4,140,681
Balance, September 30, 2018	\$ 3,564,265	\$ 4,659,837

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10. 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. 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 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 September 30, 2018. The continuity of the loan is as follows:

	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
Principal repayments		(1,299,000)
Interest paid		(298,215)
Accrued interest		337,737
Foreign exchange adjustment		53,640
Balance, September 30, 2018		\$ 5,221,195

	September 30, 2018	December 31, 2017
Current portion	\$ 2,632,195	\$ 1,928,110
Long term portion	2,589,000	4,498,923
Balance, September 30, 2018	\$ 5,221,195	\$ 6,427,033

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10. LONG-TERM DEBT (continued)

c) 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 nine 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 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 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.

On November 6, 2018, the Company received US\$5 million for the second tranche of the loan agreement with Trafigura Mexico S.A. de C.V. as described in note 19.

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 September 30, 2018. 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. The continuity of the loan is as follows:

	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
Interest paid	(596,537)
Accrued interest	633,818
Foreign exchange adjustment	292,797
Balance, September 30, 2018	\$ 9,791,715

	September 30, 2018	December 31, 2017
Current portion	\$ 3,723,746	\$ 33,140
Long term portion	6,067,969	9,428,497
Balance	\$ 9,791,715	\$ 9,461,637

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11. 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 September 30, 2018, the Company recognized \$1,581,411 (December 31, 2017 - \$1,785,985) as a finance lease obligation and \$2,273,959 (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. The continuity of the leases is as follows:

	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 repayments		(266,549)
Foreign exchange adjustment		61,975
Balance, September 30, 2018		\$ 1,581,411

	September 30, 2018	December 31, 2017
Current portion	\$ 476,969	\$ 370,289
Long term portion	1,104,442	1,415,696
Balance	\$ 1,581,411	\$ 1,785,985

12. SHARE CAPITAL

Common share transactions:

Nine months ended September 30, 2018

- i. During the period ended September 30, 2018, the Company issued 5,510,294 common shares for gross proceeds of \$661,236 in connection the exercise of warrants.
- ii. During the period ended September 30, 2018, the Company issued 705,934 common shares for gross proceeds of \$91,772 in connection with stock options exercised. The fair value of the options exercised was \$87,212 and was transferred from the equity reserves and recorded against share capital.

Nine months ended September 30, 2017

- i. During the nine months ended September 30, 2017, the Company issued 1,501,443 common shares for gross proceeds of \$82,860 in connection with warrants exercised.
- ii. During the nine months ended September 30, 2017, the Company issued 186,900 common shares for gross proceeds of \$24,297 in connection with stock options exercised. Attributed to these stock options, fair value of \$22,428 was transferred from the equity reserves and recorded against share capital.

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12. SHARE CAPITAL (continued)

Common share transactions (continued)

- iii. On June 30, 2017, the Company issued 3,448,774 common shares as a result of converting all of its convertible debenture into shares as a request of the subscriber. The common shares were issued at a price of \$0.31 for gross proceeds of \$1,069,120. The Company did not incur in any additional issuance costs.
- iv. On June 30, 2017, the Company completed a non-brokered private placement for gross proceeds of \$3,675,780 by issuing 6,683,236 common shares of the Company at a price of \$0.55. The Company incurred \$51,908 in connection to the private placement which mainly include legal and regulatory costs

13. EQUITY RESERVES

a) Share-based compensation

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

On April 17, 2018, the Company granted a total of 400,000 stock options to a Director of the Company 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 \$0.77 per share.

On April 18, 2018, the Company granted a total of 1,00,000 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.

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
Granted	1,450,000	0.76
Exercised	(705,934)	0.13
Cancelled	(100,000)	0.13
Outstanding, September 30, 2018	10,637,166	\$ 0.42

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13. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

As at September 30, 2018, the number of stock options outstanding and exercisable was:

Expiry date	Outstanding			Exercisable Number of options
	Number of options	Exercise price	Remaining contractual life (years)	
April 16, 2019	1,000,000	\$0.80	0.54	1,000,000
March 22, 2021	5,457,166	\$0.13	2.48	5,457,166
November 11, 2022	3,730,000	\$0.71	4.11	2,486,667
April 16, 2023	400,000	\$0.77	4.54	133,333
April 23, 2023	50,000	\$0.72	4.56	16,667
	10,637,166			9,093,833

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and others providing similar services. During the three and nine months ended September 30, 2018 and 2017, an amount of \$364,824 and \$nil respectively (September 30, 2017 - \$1,620,435 and \$60,304, respectively) was expensed as share-based compensation.

During the three months ended September 30, 2017, the Company did not grant any 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, 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, September 30, 2018	-	\$ -

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14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30,2018	Nine months ended September 30, 2017
Accounts payable and accrued liabilities included in mineral interest and development assets	\$ 3,742,348	\$ 184,462	\$ 5,578,482	\$ 186,204
Interest of long term debt capitalized as mineral interest and development assets	304,515	64,991	1,213,994	265,593
Depreciation capitalized as mineral interest and development assets	217,132	15,246	498,347	34,457
			Three months ended September 30, 2018	Three months ended September 30, 2017
Interest paid (note 10)		\$ 894,752		\$ -
Income taxes paid			-	-

15. 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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30,2018	Nine months ended September 30,2017
(Loss) profit attributable to common shareholders	\$ (749,622)	\$ (37,853,862)	\$ (3,437,850)	\$ 137,763,247
Weighted average number of shares	130,266,766	94,016,995	128,056,979	93,891,614
Dilutive stock options and warrants	-	118,667,559	-	118,542,178
Basic (loss)earnings per share	\$ (0.01)	\$ (0.40)	\$ (0.03)	\$ 1.47
Diluted (loss) earnings per share	\$ (0.01)	\$ (0.32)	\$ (0.03)	\$ 1.16

The Company incurred a net loss for the three and nine months ended September 30, 2018, therefore all outstanding stock options and share purchase warrants have been excluded from the calculation of diluted loss per share since the effect would be anti-dilutive.

16. RELATED PARTY BALANCES AND TRANSACTIONS

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

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16. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Short-term benefits	\$ 222,941	\$ 117,438	\$ 646,400	\$ 345,073
Share-based compensation	214,884	-	833,664	40,998
	\$ 437,825	\$ 117,438	\$ 1,480,064	\$ 386,071

Related party transactions:

As at September 30, 2018, directors and officers or their related companies were owed \$129,402 (December 31, 2017 – \$107,759) included in accounts payable and accrued liabilities mainly in respect to reimbursement of expenses and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

17. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the 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

Marketable securities are classified as level one and recorded at fair value using quoted market prices. The carrying value of cash, 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.

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17. FINANCIAL INSTRUMENTS (continued)

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 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:

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	\$ 8,545,604	\$ 6,308,721
Financial liabilities denominated in foreign currencies	(22,485,560)	(703,982)
Net exposure	\$ (13,939,956)	\$ 5,604,739

ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At September 30, 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 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 \$375,700. Also, the Company is exposed to interest rate fluctuations on the interest rate

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17. FINANCIAL INSTRUMENTS (continued)

c) Market risk (continued)

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 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 during the three and nine months ended September 30, 2018, a 1% change in zinc and lead prices would result in an increase/decrease of approximately \$153,300 and \$10,900 respectively in pre and post commercial sales (note 7).

18. 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.

During the nine months ended September 30, 2018, the Company sold its pre-commercial production to one customer accounting for 100% of pre and post - commercial sales. As at September 30, 2018 trade receivables of \$217,287 were receivable entirely from this one customer. Pre and post - commercial sales all were earned within Mexico.

	Canada	Mexico	Total
Mineral interest and development assets	\$ -	\$ 27,913,764	\$ 287,913,764
Property, plant and equipment	-	16,795,929	16,795,929
Balance, September 30, 2018	\$ -	\$ 44,709,693	\$ 44,709,693

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

19. SUBSEQUENT EVENTS

- a) On October 10, 2018, the Company closed its non-brokered private placement financing consisting of 9,124,805 Units of the Company at a price of \$0.75 per Unit for gross proceeds of \$6,843,603. Each "Unit" of the private placement consists of one common share and one half of one transferable common share purchase warrant. Each whole purchase warrant entitles the holder thereof to acquire one common share of the Company at a price of \$1.25 for a period of two years following the closing of the private placement. All Common Shares issued in connection with the private placement are subject to a four month plus one day hold period under applicable Canadian securities laws. No finder's fees were paid in connection with the private placement.

The Private Placement included four insiders of the Company subscribing for a total of 8,008,755 Units for aggregate subscription proceeds of \$6,006,566.

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19. SUBSEQUENT EVENTS (continued)

- b) On November 6, 2018, the Company received US\$5 million for the second tranche of the Loan Agreement Real with Trafigura Mexico S.A. de C.V. for the rehabilitation, construction, operation and working capital of the Tahuehueto Mine.
- c) 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 extends the repayment period of the US\$6.5 million balance that was due under the Campo Morado Loan Agreement.

The main terms of the amended Campo Morado Loan Agreement are as follows:

- Telson agreed to pay on or before November 23, 2018 an amount of US\$500,000 as principal repayment plus any accrued interest. (Paid)
- Telson will make monthly principal repayments of US\$500,000 on the 13th day of each month starting on December 13, 2018 and up until October 2019, plus any accrued interest
- The interest rate did not change and was kept at a rate of 10% per annum
- Along with the monthly principal repayments mentioned above, Telson will also pay:
 - 70% of any monthly free cash flow generated by Telson; plus any monthly excess cash balance above US\$500,000; plus
 - 50% of the monthly free cash flow generated by Telson on the Tahuehueto Project once Telson declares commercial production.

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