TELSON RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2017 and 2016

UNAUDITED

(Expressed in Canadian dollars)

TELSON RESOURCES INC.

(the "Company")

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW

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

August 29, 2017

Telson Resources Inc.
Consolidated Statements of Financial Position
Unaudited - (Expressed in Canadian dollars)

		June 30, 2017		December 31, 2016
Assets				
Current assets:				
Cash	$	261,867	$	2,489,614
Amounts receivable (note 4)		1,603,031		426,785
Prepaid expenses and deposits		104,621		41,916
Materials and supplies inventory (note 3)		13,051,934		–
		15,021,453		2,958,315
Non-current assets:				
Mineral interest and development assets (note 5)		915,281		576,525
Property, plant and equipment (note 6)		123,215,665		199,258
Deferred income tax (note 3)		79,951,257		–
Total assets	**$**	**219,103,656**	**$**	**3,734,098**
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	4,985,827	$	738,551
Obligation under share purchase agreement (note 5)		267,720		268,540
Interest accrued of the long-term debt (note 7)		491,820		128,231
Nyrstar Mining Ltd (note 3)		27,920,948		–
		33,666,315		1,135,322
Non-current liabilities:				
Long-term debt (note 7)		4,670,480		4,231,495
Provision for site reclamation and closure		2,032,940		94,039
Total liabilities	$	40,369,735	$	5,460,856
Equity (Deficiency)				
Share capital (note 8)	$	53,651,788	$	48,853,522
Equity reserves (note 9)		800,216		754,912
Retained earnings (deficit)		124,281,917		(51,335,192)
Total equity (deficiency)		178,733,921		(1,726,758)
Total liabilities and equity	**$**	**219,103,656**	**$**	**3,734,098**

Basis of presentation and going concern (note 2)
Subsequent events (note15)

Approved by the Board of Directors on August 29, 2017, 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 Resources Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Exploration and Evaluation Expenditures:				
Assaying, data and maps	$ -	$ 242	$ -	$ 242
Camp cost, equipment and field supplies	–	55,202	–	56,963
Fuel and consumables	–	942	–	2,453
Project general and office expenses	–	16,052	–	22,416
Geological consulting services	–	85,799	–	92,375
Permitting, environmental and community costs	–	71,044	–	217,965
Salaries and wages	–	49,198	–	65,051
Travel and accommodation	–	4,439	–	12,964
Accretion of provision for site reclamation and closure	–	10,744	–	10,744
Change in reclamation estimate provision	–	–	–	(64,676)
Depreciation	–	818	–	2,621
	–	294,480	–	419,118
General Expenses:				
Consulting fees, wages and benefits (note 12)	$ 222,739	$ 151,468	$ 399,514	$ 292,013
Legal and professional fees	145,031	95,854	161,705	128,131
Office, rent and administration	78,794	(51,207)	167,778	(10,068)
Regulatory, transfer agent and shareholder information	33,060	5,282	44,031	15,141
Travel, promotion and investor relations	69,836	2,102	133,413	14,556
Share-based compensation (note 9(a))	–	–	60,304	429,520
Depreciation	–	503	–	916
	549,460	204,002	966,745	870,209
Other income:				
Interest and other income	$ -	$ (94)	$ (465)	$ (694)
Bargain purchase gain (note 3)	(177,274,526)	–	(177,274,526)	–
Gain on settlement of debt (note 12)	–	(42,381)	–	(42,381)
Financing and interest costs (note 7)	76,295	–	139,720	–
Foreign exchange loss (gain)	150,482	(68,915)	551,417	(86,400)
	(177,047,749)	(111,390)	(176,583,854)	(129,475)
Total income (loss) and comprehensive income (loss) for the period	**$ 176,498,289**	**$ (387,092)**	**$ 175,617,109**	**$ (1,159,852)**
Weighted average number of shares outstanding (note 11)				
Basic	94,016,995	81,578,302	93,891,614	81,048,274
Diluted	118,667,559	81,578,302	118,542,178	81,048,274
Earnings per share (note 11)				
Basic	$ 1.88	$ 0.00	$ 1.87	$ (0.01)
Diluted	$ 1.49	$ 0.00	$ 1.48	$ (0.01)

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

Telson Resources Inc.

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		Deficit		Total
Balance as at December 31, 2015	**80,518,245**	**$**	**46,983,300**	**$**	**400,000**	**$**	**(47,387,034)**	**$**	**(3,734)**
Shares issued pursuant to private placement	1,484,080		1,468,371		–		–		1,468,371
Share purchase warrants expired	–		400,000		(400,000)		–		–
Share-based compensation (note 9(a))	–		–		429,520		–		429,520
Loss and comprehensive loss for the period	–		–		–		(1,159,852)		(1,159,852)
Balance as at June 30, 2016	**82,002,325**	**$**	**48,851,671**	**$**	**429,520**	**$**	**(48,546,886)**	**$**	**734,305**
Balance as at December 31, 2016	**92,900,995**	**$**	**48,853,522**	**$**	**754,912**	**$**	**(51,335,192)**	**$**	**(1,726,758)**
Shares issued pursuant to private placement	6,683,236		3,648,346		–		–		3,648,346
Conversion of convertible debenture into shares	3,448,774		1,069,120		–		–		1,069,120
Share purchase warrants exercised	991,000		49,550		–		–		49,550
Stock options exercised	125,000		16,250		–		–		16,250
Fair value of stock options allocated to share capital issued on exercise	–		15,000		(15,000)		–		–
Share-based compensation (note 9(a))	–		–		60,304		–		60,304
Income and comprehensive income for the period	–		–		–		175,617,109		175,617,109
Balance as at June 30, 2017	**104,149,005**	**$**	**53,651,788**	**$**	**800,216**	**$**	**124,281,917**	**$**	**178,733,921**

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

Telson Resources Inc.
Consolidated Statements of Cash Flows
Unaudited - (Expressed in Canadian dollars)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash (used in) provided by:				
Operating activities:				
Income (loss) for the period	$ 176,498,289	$ (387,092)	$ 175,617,109	$ (1,159,852)
Items not involving cash:				
Depreciation	12,016	1,321	19,211	3,537
Accretion of provision for site reclamation and closure	2,018	10,744	3,839	10,744
Change in reclamation estimate provision	–	–	–	(64,676)
Unrealized foreign exchange	(15,211)	(88,200)	319,432	(50,034)
Share-based compensation (note 9(a))	–	–	60,304	429,520
Accrued Interest of long term debt	175,773	–	334,336	–
Bargain purchase gain (note 3)	(177,274,526)	–	(177,274,526)	–
Changes in non-cash working capital:				
Amounts receivable	(76,607)	(48,778)	(96,128)	(75,771)
Prepaid expenses and deposits	(14,693)	943	2,600	8,230
Current liabilities	525,507	(1,682,727)	357,292	(311,171)
Cash used in operating activities	(167,434)	(2,193,789)	(656,531)	(1,209,473)
Investing activities:				
Plant and equipment additions	(156,925)	(4,095)	(1,517,670)	(11,219)
Mineral interest and development assets additions	(446,522)	–	(337,014)	–
Acquisition of Campo Morado, net of cash acquired (note 3)	(4,626,168)	–	(4,626,168)	–
Cash used in investing activities	(5,229,615)	(4,095)	(6,480,852)	(11,219)
Financing activities:				
Proceeds from issuance of common shares, net of share issue costs (note 8)	4,717,466	1,468,372	4,717,466	1,468,372
Proceeds in connection to warrants and stock options exercised	–	–	65,800	–
Conversion of convertible debenture into shares	(1,069,120)	–	–	–
Cash provided by financing activities	3,648,346	1,468,372	4,783,266	1,468,372
Effect of foreign exchange rate changes on cash	79,383	(11,833)	126,370	(9,326)
(Decrease) increase in cash	(1,669,320)	(741,345)	(2,227,747)	238,354
Cash, beginning of the period	1,931,187	1,513,330	2,489,614	533,631
Cash, end of the period	$ 261,867	$ 771,985	$ 261,867	$ 771,985

Supplemental cash flow information (note 10)

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

(Expressed in Canadian dollars, unless otherwise stated)

1. CORPORATE INFORMATION

Telson Resources Inc. (the "Company" or "Telson") was incorporated on April 11, 1986, under the laws of British Columbia, Canada. The Company's head office address is 1090 West Georgia Street, Suite 450, Vancouver, British Columbia, V6E 3V7, Canada. The registered and records office address is 595 Burrard Street, Suite 700, Vancouver, British Columbia, Canada, V7X 1S8. 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 acquisition, exploration and development of resource properties in North America and specially the development of the Tahuehueto project and restarting mining operation at Campo Morado.

2. BASIS OF PRESENTATION AND GOING CONCERN

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 ten months ended December 31, 2016, 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 29, 2017.

Comparative figures

During 2016, the Company changed its year-end from February 28 to December 31 with the objective to unify reporting periods for all its subsidiaries and to align with its industry peers. Additionally, comparative financial statements have been prepared for the three and six months ended June 30, 2016 and have not been presented in prior periods.

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

Basis of preparation and consolidation

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

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

2. BASIS OF PRESENTATION AND GOING CONCERN (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. The presentation currency is the Canadian dollar; therefore, references to $ means Canadian dollars, US$ are to US dollars and MXN$ to Mexican pesos.

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 ten months ended December 31, 2016, and have been consistently applied in the preparation of these condensed interim consolidated financial statements, except for the following:

i. Business Combination

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

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

Going concern

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The ability of the Company to meet its commitments as they become due, including completion of the acquisition of an interest in and exploration and development of its mineral properties, is dependent upon the existence of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete exploration and development and upon future profitable production or proceeds from disposition of these properties. The outcome of these matters cannot be predicted at this time. These condensed interim consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

As at June 30, 2017, the Company had cash in the amount of $261,867 (December 31, 2016 – $2,489,614) and working capital of $(18,644,862) (December 31, 2016 – $1,822,993).

(Expressed in Canadian dollars, unless otherwise stated)

3. ACQUISITION OF CAMPO MORADO

On June 13, 2017, the Company entered into 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, located in Guerrero State, Mexico.

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

- US$800,000 at signing of the Agreement (Paid);
- US$2.7 million on or before June 12, 2017 (Paid);
- US$16.5 million on or before June 13, 2018.

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

1. US$20 per tonne of zinc sold if the zinc price received is over US$2,100 per tonne; or
2. a percentage that rage between 0.5% and 4.25% of the net smelter revenues received from zinc when the price of zinc rage 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.

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. Provisional fair values have been allocated as at the reporting date and will be finalized as soon as the relevant information is available, within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

Transaction costs associated with the acquisition totaling $91,690 were expensed as incurred. 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 provisional management's estimates of the relative fair value of assets acquired and liabilities assumed is as follows:

Total purchase price:	
Cash consideration paid	$ 4,665,820
Cash consideration payable	21,842,700
Fair value of the variable purchase price	6,078,248
Total purchase price to allocate	$ 32,586,768
Cost of assets acquired and liabilities assumed:	
Cash	$ 39,652
Amounts receivable and prepaid expenses	1,096,061
Materials and supplies inventory	13,051,934
Property, plant and equipment	121,517,949
Deferred income tax	79,951,257
Accounts payable and accrued liabilities	(3,870,435)
Provision for site reclamation and closure	(1,925,123)
	$ 209,861,294

(Expressed in Canadian dollars, unless otherwise stated)

3. ACQUISITION OF CAMPO MORADO (continued)

This business combination resulted in a bargain purchase transaction because the fair value of the assets acquired and liabilities assumed exceeded the total fair value of the purchase price by $177,274,526. As a result, the Company recognized this amount in the consolidated statement of income (loss) and comprehensive income (loss) as a bargain purchase gain under other income during the current period.

4. AMOUNTS RECEIVABLE

	June 30, 2017	December 31, 2016
Mexican value added tax recoverable	$ 1,210,118	$ 352,238
Canadian goods and service tax recoverable	27,536	13,615
Other receivables	365,377	60,932
Total amounts receivable	$ 1,603,031	$ 426,785

5. MINERAL INTEREST AND DEVELOPMENT ASSETS

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 Durango State, 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 $267,720 (US$200,000) (December 31, 2016 $268,540 (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.

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.

Acquisition and development related costs for the Tahuehueto project, as at June 30, 2017 and December 31, 2016 are as follows:

(Expressed in Canadian dollars, unless otherwise stated)

5. MINERAL INTEREST AND DEVELOPMENT ASSETS (continued)

Tahuehueto Project (continued)

	Amount
Balance as at December 31, 2015	$ 576,525
Acquisition cost:	
Additions	-
Balance as at December 31, 2016	$ 576,525
Development costs:	
Assaying, data and maps	10,100
Camp cost, equipment and field supplies	225,901
Development costs	373,693
Freight and related costs	94,711
Fuel and consumables	123,583
Project general and office expenses	40,833
Geological consulting services	181,639
Permitting, environmental and community costs	241,465
Salaries and wages	274,046
Travel and accommodation	82,677
Accretion of provision for site reclamation and closure	3,839
Depreciation	19,211
Interest incurred	200,602
Recovery of expenses	(1,533,544)
Total additions for the period	338,756
Balance as at June 30, 2017	$ 915,281

Based on positive results from the pre-feasibility study the Company has proven and probable mineral reserves and effective January 1, 2017 began capitalizing costs associated with the development of the Tahuehueto Project.

(Expressed in Canadian dollars, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and improvements	Plant	Camp and field equipment	Mine development	Construction in progress	Total
Cost						
Balance, December 31, 2016	$ -	$ -	$ 209,478	$ -	$ -	$ 209,478
Acquisition of Campo Morado	20,891,612	36,673,132	8,883,643	37,324,210	17,745,352	121,517,949
Additions	-	1,300,000	217,669	-	-	1,517,669
Balance, June 30, 2017	$ 20,891,612	$ 37,973,132	$ 9,310,790	$ 37,324,210	$ 17,745,352	$ 123,245,096
Accumulated depreciation						
Balance, December 31, 2016	$ -	$ -	$ 10,220	$ -	$ -	$ 10,220
Depreciation for the period	-	-	19,211	-	-	19,211
Balance, June 30, 2017	$ -	$ -	$ 29,431	$ -	$ -	$ 29,431
Net book value						
December 31, 2016	$ -	$ -	$ 152,562	$ -	$ -	$ 199,258
June 30, 2017	$ 20,891,612	$ 37,973,132	$ 9,281,359	$ 37,324,210	$ 17,745,352	$ 123,215,665

7. LONG-TERM DEBT

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 continuity of the outstanding long-term debt is as follows:

	Amount
Balance, December 31, 2016	$ 4,359,726
Foreign exchange adjustment	449,052
Accrued interest	353,522
Balance, June 30, 2017	5,162,300
Less current portion of the obligation (accrued interest)	(491,820)
Non-current liabilities	$ 4,670,480

8. SHARE CAPITAL

Common shares transactions

Six months ended June 30, 2017

ii. During the six months ended June 30, 2017, the Company issued 991,000 common shares for gross proceeds of $49,550 in connection with warrants exercised.

iii. During the six months ended June 30, 2017, the Company issued 125,000 common shares for gross proceeds of $16,250 in connection with stock options exercised. Attributed to these stock options, fair value of $15,000 was transferred from the equity reserves and recorded against share capital.

iv. 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.

v. 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 $27,434 in connection to the private placement which mainly include legal and regulatory costs.

Six months ended June 30, 2016

vi. During the three months ended March 31, 2016, warrants expired without being exercised and a fair value of $400,000 was transferred from equity reserves and recorded against share capital.

vii. On April 26, 2016, the Company completed a non-brokered private placement for gross proceeds of $1,484,080 by issuing 12,367,333 Units of the Company. Each Unit is priced at $0.12 and is comprised of one common share and one half purchase warrant. Each whole purchase warrant is exercisable into a common share of the Company at a price of $0.12 per share for a period of 24 months from the date of issuance. All securities issued under the non-brokered private placement are subject to a hold period expiring four months and one day after the closing date.

In connection to the non-brokered private placement, the Company incurred costs of issuance in the amount of $15,709, which mainly includes legal and regulatory costs.

9. EQUITY RESERVES

a) Share-based compensation

The Company has a Stock Option Plan (the “Plan”) providing for the issuance of stock options to directors, officers, employees and other service providers enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the Board of Directors. Stock options can be granted for a maximum term of 5 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to 33.33% on the date of the grant and 33.33% every six months thereafter for a total vesting period of 12 months.

(Expressed in Canadian dollars, unless otherwise stated)

9. EQUITY RESERVES (continued)

a) Share-based compensation (continued)

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, 2015	-	$ -
Granted	6,950,000	0.13
Outstanding, December 31, 2016	6,950,000	$ 0.13
Exercised	(125,000)	0.13
Outstanding, June 30, 2017	6,825,000	$ 0.13

As at June 30, 2017, the number of stock options outstanding and exercisable was:

	Outstanding			Exercisable		
Expiry date	Number of options	Exercise price	Remaining contractual life (years)	Number of options	Exercise price	Remaining contractual life (years)
March 22, 2021	6,825,000	$ 0.13	3.81	6,825,000	$ 0.13	3.81

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 six months ended June 30, 2017 an amount of $nil and $60,304, respectably (June 30, 2016 - $nil and $429,520, respectively) was expensed as share-based compensation.

During the three and six months ended June 30, 2017 the Company did not grant stock options.

During the three and six months ended June 30, 2016, the Company granted a total of 6,950,000 with a fair value of $0.12 calculated as of the date of grant using the Black-Scholes option pricing model with the following assumptions and inputs:

	March 22, 2016
Risk-free interest rate	0.74%
Expected dividend yield	nil
Stock price volatility	205%
Expected life (in years)	5

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

(Expressed in Canadian dollars, unless otherwise stated)

9. EQUITY RESERVES (continued)

b) Share purchase warrants

As at June 30, 2017, the share purchase warrants outstanding are as follows:

Number of warrants	Exercise price	Expiry date
16,520,000	$ 0.05	November 17, 2017
2,489,000	0.05	December 9, 2017
6,168,250	0.12	April 26, 2018
25,177,250	$ 0.07	

10. SUPLEMENTAL CASHFLOW INFORMATION

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30,2017	Six months ended June 30, 2016
Accounts payable and accrued liabilities included in mineral interest and development assets	$ (30,489)	$ -	$ 1,742	$ -
Interest of long term debt capitalized as mineral interest and development assets	105,464	-	200,602	-
Depreciation capitalized as mineral interest and development assets	4,821	-	19,211	-

11. EARNINGS PER SHARE

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30,2017	Six months ended June 30,2016
Income (loss) attributable to common shareholders	$ 176,498,289	$ 387,092	$ 175,617,109	$ 1,159,852
Weighted average number of shares	94,016,995	81,578,302	93,891,614	81,048,274
Dilutive stock options and warrants	24,650,564	-	24,650,564	-
Weighted average number of outstanding shares for diluted earnings per share	118,667,559	81,578,302	118,542,178	81,048,274
Basic earnings (loss) per share	$ 1.88	$ 0.00	$ 1.87	$ (0.01)
Diluted earnings (loss) per share	$ 1.49	$ 0.00	$ 1.48	$ (0.01)

The Company incurred a net loss for the three and six months period ended June 30, 2016, 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.

(Expressed in Canadian dollars, unless otherwise stated)

12. 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. During the three and six months ended June 30, 2017 and 2016, the Company incurred the following charges by key management personnel, including directors and officers of the Company and companies controlled by directors and officers of the Company:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Compensation to key management personnel	$ 117,489	$ 74,134	$ 227,635	$ 149,245
Share-based compensation	-	105,713	`40,998	290,438
Exploration and evaluation expenditures	-	-	-	5,330
Loan repayment		59,000		59,000
Expenses recorded under office, rent and administration	2,663	2,616	7,524	8,878
	$ 120,152	$ 241,463	$ 276,157	$ 512,891

As at June 30, 2017, directors and officers or their related companies were owed $75,126 (December 31, 2016 – $99,054) included in accounts payable and accrued liabilities mainly in respect to services rendered. These amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

As at June 30, 2017, directors and officers or their related companies owed the Company $nil (December 31, 2016 – $6,456) included in prepaid expenses and deposits.

During the three and six months period ended June 30, 2016, the Company settled a loan interest payable in the amount of $67,381 owed to a former director of the Company by a cash payment of $25,000 resulting in a gain on settlement of debt in the amount of $42,381.

13. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of the financial instrument from an independent third party. Given the varying influencing factors, the reported fair values are only indicators of the prices that may be realized for these financial instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

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

The Company recorded at fair value the following financial instruments under Level 1 of the fair value hierarchy, as at June 30, 2017 and December 31, 2016, the carrying amounts of amounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, interest accrued of the long-term debt and Nyrstar Mining Ltd., due to the short term to maturity of such instruments. The long term-debt is designated as a non-current liability, which we measure at amortized cost.

The Company is exposed in varying degrees to a variety of financial instrument related risk such as:

13. FINANCIAL INSTRUMENTS (continued)

(a) Credit risk

Credit risk is the risk that a third party fails to discharge its obligations under the terms of the financial contract and causes a financial loss for the Company. The Company's credit risk is attributable to its cash and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash balances in highly rated financial institutions. The Company considers the risk of loss associated with cash to be low.

The Company's amounts receivable consists primarily of tax receivables due from federal government agencies. Management is confident that their carrying values are recoverable in full and this risk is minimal.

(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 Canadian dollar). 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. The effect of a 10% change in foreign exchange rates would change the Company's loss and comprehensive loss by approximately $3,289,912.

(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 June 30, 2017, the Company's long-term debt are at fixed rates, hence there is no market risk arising from the fluctuations in floating interest rates. Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

(d) Commodity and equity price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore and develop its exploration and evaluation assets and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold prices to determine the appropriate course of action to be taken by the Company. Equity price risk is defined as the potential adverse impact on the Company's performance due to movements in individual equity prices or general movements in the level of the stock market.

(Expressed in Canadian dollars, unless otherwise stated)

14. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration and development of mineral resource properties. Geographic segmentation of non-current assets is as follows:

June 30, 2017	Canada	Mexico	Total
Plant and equipment, net	$ -	$ 123,215,665	$ 123,215,665
Mineral interest and development assets	-	908,086	908,086
	$ -	$ 124,123,751	$ 124,123,751

December 31, 2016	Canada	Mexico	Total
Plant and equipment, net	$ -	$ 199,258	$ 199,258
Mineral interest and development assets	-	576,525	576,525
	$ -	$ 775,783	$ 775,783

15. SUBSEQUENT EVENTS

Subsequent to June 30, 2017, a total of 176,000 share purchase warrants and 11,900 stock options were exercised with an exercise price between $0.05 and $0.13, for gross proceeds of $14,547.