

# **PALAMINA CORP.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2019 AND 2018**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

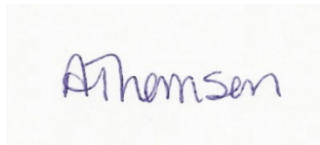
The accompanying unaudited interim consolidated financial statements of Palamina Corp. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The unaudited interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.



Andrew Thomson  
President and Chief Executive Officer



Brian Jennings  
Chief Financial Officer

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### **NOTICE TO READER**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim consolidated statements for the three month periods ended March 31, 2019 and 2018 have not been reviewed by the Company's auditors.

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# PALAMINA CORP.

## Unaudited Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

<i>As at,</i>	March 31, 2019 \$	December 31, 2018 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 5)	1,011,568	40,074
Receivables (Note 6)	14,760	4,456
Prepaid expenses	44,009	14,587
<b>Total current assets</b>	<b>1,070,337</b>	<b>59,117</b>
Equipment (Note 7)	44,831	49,025
<b>Total assets</b>	<b>1,115,168</b>	<b>108,142</b>
<b>LIABILITIES AND EQUITY (DEFICIENCY)</b>		
Current		
Trade and other payables (Notes 8 and 9)	198,398	485,302
<b>Total liabilities</b>	<b>198,398</b>	<b>485,302</b>
<b>Equity (Deficiency)</b>		
Share capital (Note 10)	5,641,516	4,337,364
Reserve for share-based payments (Note 11)	524,000	590,000
Reserve for warrants (Note 12)	1,416,775	910,000
Accumulated deficit	(6,644,957)	(6,195,888)
Reserve for foreign currency translation	(20,564)	(18,636)
<b>Total equity (deficiency)</b>	<b>916,770</b>	<b>(377,160)</b>
<b>Total liabilities and equity</b>	<b>1,115,168</b>	<b>108,142</b>

*Nature of Operations and Going Concern Uncertainty (Note 1)*

*Commitments and Contingencies (Note 14)*

*Subsequent Event (Note 16)*

On behalf of the Board of Directors on May 27, 2019:



Andrew Thomson  
Director



Darin Wagner  
Director

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## **PALAMINA CORP.**

### **Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian dollars)

	<b>2019</b>	2018
<b>For the three months ended March 31,</b>	<b>\$</b>	\$
<b>Expenses</b>		
Exploration and evaluation expenditures (Note 13)	<b>234,013</b>	274,943
Salaries, director and management fees	<b>81,007</b>	84,824
Investor relations	<b>103,472</b>	55,475
Regulatory fees	<b>6,000</b>	8,247
Professional fees	<b>13,462</b>	5,590
Office and general	<b>4,664</b>	4,479
Rent	<b>4,500</b>	4,500
Foreign exchange loss	<b>1,951</b>	1,903
<b>Net loss</b>	<b>449,069</b>	439,961
<b>Other comprehensive loss - items that will not subsequently reclassify into income</b>		
Exchange on translation of foreign subsidiaries	<b>1,928</b>	(73)
<b>Net comprehensive loss</b>	<b>450,997</b>	439,888
<b>Loss per share - basic and diluted</b>	<b>0.01</b>	0.02
<b>Weighted average number of common shares outstanding</b>	<b>32,287,983</b>	25,310,445

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## PALAMINA CORP.

### Unaudited Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Share Capital		Reserve for Share-based payments	Reserve for Warrants	Accumulated deficit	Reserve for foreign currency translation	Total
	Number of shares	Amount					
<b>Balance at December 31, 2017</b>	<b>22,574,704</b>	<b>\$ 3,120,457</b>	<b>\$ 280,000</b>	<b>\$ -</b>	<b>\$ (3,274,412)</b>	<b>\$ (18,404)</b>	<b>\$ 107,641</b>
Issued pursuant to private placement	7,166,667	2,150,000	-	-	-	-	2,150,000
Warrants issued pursuant to private placement	-	(910,000)	-	910,000	-	-	-
Share issue costs	-	(38,093)	-	-	-	-	(38,093)
Issued pursuant to exercise of stock options	150,000	9,000	-	-	-	-	9,000
Transfer of reserve on exercise of stock options	-	6,000	(6,000)	-	-	-	-
Net loss	-	-	-	-	(439,961)	-	(439,961)
Other comprehensive loss	-	-	-	-	-	73	73
<b>Balance at March 31, 2018</b>	<b>29,891,371</b>	<b>\$ 4,337,364</b>	<b>\$ 274,000</b>	<b>\$ 910,000</b>	<b>\$ (3,714,373)</b>	<b>\$ (18,331)</b>	<b>\$ 1,788,660</b>
Share based payments	-	-	316,000	-	-	-	316,000
Net loss	-	-	-	-	(2,481,515)	-	(2,481,515)
Other comprehensive loss	-	-	-	-	-	(305)	(305)
<b>Balance at December 31, 2018</b>	<b>29,891,371</b>	<b>\$ 4,337,364</b>	<b>\$ 590,000</b>	<b>\$ 910,000</b>	<b>\$ (6,195,888)</b>	<b>\$ (18,636)</b>	<b>\$ (377,160)</b>
Issued pursuant to private placement	5,625,665	1,687,600	-	-	-	-	1,687,600
Warrants issued pursuant to private placement	-	(522,000)	-	522,000	-	-	-
Share issue costs	-	(33,000)	-	(15,225)	-	-	(48,225)
Issued pursuant to exercise of stock options	711,600	105,552	-	-	-	-	105,552
Transfer of reserve on exercise of stock options	-	66,000	(66,000)	-	-	-	-
Net loss	-	-	-	-	(449,069)	-	(449,069)
Other comprehensive loss	-	-	-	-	-	(1,928)	(1,928)
<b>Balance at March 31, 2019</b>	<b>36,228,636</b>	<b>\$ 5,641,516</b>	<b>\$ 524,000</b>	<b>\$ 1,416,775</b>	<b>\$ (6,644,957)</b>	<b>\$ (20,564)</b>	<b>\$ 916,770</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

# PALAMINA CORP.

## Unaudited Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	2019	2018
For the three months ended March 31,	\$	\$
<b>Operating activities</b>		
Net loss for the year	(449,069)	(439,961)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,678	2,898
Unrealized foreign exchange differences	(936)	(1,420)
Change in non-cash working capital		
Receivables	(10,304)	(4,234)
Prepaid expenses	(29,422)	11,141
Trade and other payables	(286,904)	(157,932)
Cash (used in) operating activities	(772,957)	(589,508)
<b>Investing activities</b>		
Purchase of equipment	(476)	(1,534)
Cash (used in) investing activities	(476)	(1,534)
<b>Financing activities</b>		
Issuance of share capital and warrants	1,687,600	2,150,000
Proceeds from exercise of options	105,552	9,000
Share issuance costs	(48,225)	(38,093)
Cash provided from financing activities	1,744,927	2,120,907
<b>Increase in cash and cash equivalents</b>	<b>971,494</b>	<b>1,529,865</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>40,074</b>	<b>296,805</b>
<b>Cash and cash equivalents, end of period</b>	<b>1,011,568</b>	<b>1,826,670</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

Palamina Corp. (“Palamina” or the “Company”) is an exploration stage company focused on the exploration for economic mineral deposits in Peru through its wholly owned subsidiary Palamina SAC (“Palamina Peru”), and to a lesser extent in Mexico through its wholly owned subsidiary, Palamina S.A. de C.V. (“Palamina Mexico”). Palamina was incorporated on April 23, 2015 under the *Business Corporations Act* (Ontario). The Company’s head office is located at 145 King Street West, Suite 2870 Toronto, ON M5H 1J8.

The business of mineral exploration involves a high degree of risk and there can be no assurance that the Company’s exploration programs will result in profitable operations. The recoverability of the Company’s exploration and evaluation expenditures is dependent upon the discovery of economically recoverable mineral reserves; securing and maintaining title and beneficial interest in the properties; the ability to obtain the necessary financing to complete exploration, development and construction of processing facilities; obtaining various government approvals; and attaining profitable production or alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis; all of which are uncertain.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements, non-compliance with regulatory requirements or aboriginal land claims.

Substantially all of the Company’s efforts are devoted to financing and developing these properties. There has been no determination whether the Company’s interests in mineral properties contain mineral reserves which are economically recoverable.

The Company is at an early stage of development and, as is common with many exploration companies, it relies on financings to fund its exploration and acquisition activities. The Company had an excess of current assets over current liabilities of \$871,939 at March 31, 2019; had not yet achieved profitable operations; had accumulated losses of \$6,644,957 at March 31, 2019; and expects to incur further losses in the development of its business. Management believes that, Palamina has adequate cash resources to fund its operations over the next twelve months. However, additional financing is required in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. There can be no certainty as to the ability of the Company to raise sufficient additional financing in order to continue to operate.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

These unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These unaudited interim consolidated financial statements were authorized by the Board of Directors of the Company on May 27, 2019.

**2.2 Basis of presentation**

These unaudited interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2018 annual financial statements.

**2.3 Use of management estimates, judgments and measurement uncertainty**

The preparation of these financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates and judgements, relate to the valuation of share-based payments, determination of functional currency, and tax provisions. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below:

***Share-based Payment Transactions***

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the Black-Scholes valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 11.

***Functional Currency***

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's operating costs in Canada, Peru, and Mexico and sources of equity financing.



**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**2. BASIS OF PREPARATION (continued)**

**2.3 Use of management estimates, judgments and measurement uncertainty (continued)**

***Tax Provisions***

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Value-added taxes receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The determination of the appropriate allowance for doubtful accounts requires the application of significant judgment with respect to the collectability of the amounts outstanding and is based on historical experience. Refer to Note 6.

**3. CAPITAL MANAGEMENT**

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and the industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, reserve accounts, accumulated deficit and reserve for foreign currency translation which at March 31, 2019 totaled \$916,770 (December 31, 2018 - \$(377,160)).

Palamina manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the three month period ended March 31, 2019 and 2018.

The Company is not subject to any capital requirements imposed by lending institutions or regulatory body, other than the TSX Venture Exchange.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**4. FAIR VALUE AND FINANCIAL RISK FACTORS**

**Fair value of financial instruments**

The Company has designated its cash equivalents as FVTPL which are measured at fair value. Fair value of cash equivalents is determined based on transaction value and is categorized as a Level two measurement.

- Level One includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two includes inputs that are observable other than quoted prices included in Level One.
- Level Three includes inputs that are not based on observable market data.

<b>March 31, 2019</b>	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>
	\$	\$	\$
Cash equivalents	-	-	-

<b>December 31, 2018</b>	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>
	\$	\$	\$
Cash equivalents	-	-	-

As at March 31, 2019 and December 31, 2018, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to their short term nature.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

**Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents consist of cash on hand and on deposit with reputable financial institutions and management believe the risk of loss is minimal. The Company's maximum exposure to credit risk as at March 31, 2019 is the carrying value of cash and cash equivalents.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2019, the Company had current assets of \$1,070,337 (December 31, 2018 - \$59,117) including cash and cash equivalents of \$1,011,568 (December 31, 2018 - \$40,074) to settle current liabilities of \$198,398 (December 31, 2018 - \$485,302) resulting in working capital of \$871,939 (December 31, 2018 - \$426,185 working capital deficiency).

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and the prices of commodities and equities.

***Interest rate risk***

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term guaranteed investment certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments. As at March 31, 2019, the Company had cash and cash equivalents of \$1,011,568 (December 31, 2018 - \$40,074).

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**4. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)**

***Foreign currency risk***

The Company's exploration activities are conducted primarily in Peru. Major purchases and exploration expenditures are transacted in Peruvian nuevo soles and US dollars. Administrative expenditures and cash and cash equivalents balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk. The Company mitigates the risk of foreign currency fluctuations by converting Canadian currency to Peruvian nuevo soles, US dollars when required to fund expenditures in those currencies.

***Price risk***

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to gold and silver to determine the appropriate course of action to be taken by the Company.

**Sensitivity analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next 12-month period:

- (i) Interest rate risk is limited to cash and cash equivalents balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company's subsidiaries hold financial assets and liabilities in US dollars and Peruvian nuevo soles that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, net loss for the three month period ended March 31, 2019 would have been approximately \$7,000 higher/lower. If the Peruvian nuevo sole rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the three month period ended March 31, 2019 would have been approximately \$1,000 higher/lower.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even if commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them. As of March 31, 2019, the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

**5. CASH AND CASH EQUIVALENTS**

The balance at March 31, 2019 consists of cash on deposit with major Canadian, Mexican and Peruvian banks in general interest bearing accounts totaling \$1,011,568 (December 31, 2018 - \$40,074).

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

**6. RECEIVABLES**

The Company's receivables arise from two main sources: harmonized sales tax ("HST") due from the Canadian government and value added taxes ("VAT") due from the Mexican government taxation authorities. The value is as follows:

	As at,	
	March 31, 2019	December 31, 2018
	\$	\$
HST receivable	14,760	3,934
Other receivable	-	522
<b>Total receivables</b>	<b>14,760</b>	<b>4,456</b>

As at March 31, 2019, the total value-added taxes receivable is \$10,958 and a provision for non-collection of \$10,958 has been recorded. The Company has recorded a 100% provision of VAT based on historical trends. At March 31, 2019, the Company anticipates full recovery of the \$14,760 (December 31, 2018 - \$4,456). The Company holds no collateral for any receivable amounts outstanding as at March 31, 2019.

**7. EQUIPMENT**

	Vehicles \$	Equipment \$	Total \$
<b>Cost</b>			
As at December 31, 2017	49,086	5,160	54,246
Additions	-	9,977	9,977
Foreign exchange translation	4,296	3,226	7,522
As at December 31, 2018	53,382	18,363	71,745
Additions	-	476	476
Foreign exchange translation	(1,011)	(372)	(1,383)
As at March 31, 2019	52,371	18,467	70,838
<b>Accumulated depreciation</b>			
As at December 31, 2017	7,473	707	8,180
Depreciation expense	10,404	2,749	13,153
Foreign exchange translation	1,137	250	1,387
As at December 31, 2018	19,014	3,706	22,720
Depreciation expense	2,677	1,001	3,678
Foreign exchange translation	(320)	(71)	(391)
As at March 31, 2019	21,371	4,636	26,007
<b>Net book value</b>			
As at December 31, 2017	41,613	4,453	46,066
As at December 31, 2018	34,368	14,657	49,025
As at March 31, 2019	31,000	13,831	44,831

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

**8. TRADE AND OTHER PAYABLES**

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is typically 30 days contingent on the availability of working capital.

The following is an aged analysis of the trade and other payables:

	As at,	
	March 31, 2019 \$	December 31, 2018 \$
Less than 1 month	4,004	24,176
Over 1 month	194,394	461,126
<b>Total trade and other payables</b>	<b>198,398</b>	485,302

**9. RELATED PARTIES AND KEY MANAGEMENT**

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. Compensation awarded to key management includes the following:

<b>Three months ended March 31,</b>	<b>2019</b>		<b>2018</b>	
Short-term employee benefits	\$	116,000	\$	86,000
Share based payments – options		-		-
<b>Total compensation to key management</b>	<b>\$</b>	<b>116,000</b>	<b>\$</b>	<b>86,000</b>

At March 31, 2019, included in trade and other payables is \$13,000 (December 31, 2018 - \$132,000) due to these key management personnel. These amounts are due on demand, unsecured and non-interest bearing.

Directors and officers subscribed for 341,667 common shares in the February 28, 2018 private placement and 153,333 shares in the March 1, 2019 private placement.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**10. SHARE CAPITAL**

- a) Authorized: An unlimited number of common shares with no par value  
b) Issued and outstanding:

	<b>Number of Shares</b>	<b>Amount \$</b>
<b>Balance – December 31, 2017</b>	<b>22,574,704</b>	<b>3,120,457</b>
Issued for cash pursuant to private placement of 7,166,667 units <sup>(i)</sup>	7,166,667	2,150,000
Warrants issued <sup>(i)</sup>	-	(910,000)
Share issue costs <sup>(i)</sup>	-	(38,093)
Issued pursuant to exercise of stock options <sup>(ii)</sup>	150,000	9,000
Transfer of reserve on exercise of stock options <sup>(ii)</sup>	-	6,000
<b>Balance – December 31, 2018</b>	<b>29,891,371</b>	<b>4,337,364</b>
Issued for cash pursuant to private placement of 7,166,667 units <sup>(iii)</sup>	5,625,665	1,687,600
Warrants issued <sup>(iii)</sup>	-	(522,000)
Share issue costs <sup>(iii)</sup>	-	(33,000)
Issued pursuant to exercise of stock options <sup>(iv)</sup>	711,600	105,552
Transfer of reserve on exercise of stock options <sup>(iv)</sup>	-	66,000
<b>Balance – March 31, 2019</b>	<b>36,228,636</b>	<b>5,641,516</b>

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three Month Periods Ended March 31, 2019 and 2018**  
(Expressed in Canadian dollars)

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**10. SHARE CAPITAL (continued)**

- (i) On February 26, 2018 the Company closed a private placement offering of 7,166,667 units at a purchase price of \$0.30 per unit, for aggregate gross proceeds of \$2,150,000. Each unit consists of one common share and one warrant. Each warrant is exercisable to acquire one common share at a price of \$0.50 until August 26, 2019. The Company has the option to accelerate the expiry date of the warrant provided that if after four months and one day following the closing of the private placement, the closing price of the Common Shares on the TSX Venture Exchange is equal to or greater than \$0.90 for 10 consecutive trading days.
- (ii) On March 28, 2018 the Company issued 150,000 common shares pursuant to the exercise of stock options at a price of \$0.06.
- (iii) On March 1, 2019 the Company closed the first tranche of a private placement consisting of 5,118,332 units at the price of \$0.30 per unit for total proceeds of \$1,535,500. Each unit consists of one common share and one warrant. Each warrant is exercisable to acquire one common share at a price of \$0.50 for a period of 24 months from the closing date. The Company has the option to accelerate the expiry date of the warrant provided that if after four months and one day following the closing of the private placement, the closing price of the common shares on the TSX Venture Exchange is equal to or greater than \$0.90 for 10 consecutive trading days.

On March 29, 2019 the Company closed the second tranche of a private placement consisting of 507,333 units at the price of \$0.30 per unit for total proceeds of \$152,200. Each unit consists of one common share and one warrant. Each warrant is exercisable to acquire one common share at a price of \$0.50 for a period of 24 months from the closing date. The Company has the option to accelerate the expiry date of the warrant provided that if after four months and one day following the closing of the private placement, the closing price of the common shares on the TSX Venture Exchange is equal to or greater than \$0.90 for 10 consecutive trading days.

- (iv) On January 13, 2019 711,600 stock options were exercised for total proceeds of \$105,552. The stock options exercised are as follows: 150,000 at an exercise price of \$0.06, 300,000 at an exercise price of \$0.13, and 261,600 at an exercise price of \$0.22.

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**11. STOCK OPTIONS**

On September 15, 2015 the Company adopted a stock option plan (the “Plan”) that provides that the Board of Directors of the Company may grant options to directors, officers, employees and consultants of the Company the option to purchase common shares. The maximum number of common shares reserved for issue under the Plan at any point in time may not exceed 10% of the number of shares issued and outstanding. The purpose of the Plan is to attract, retain and motivate directors, officers, employees, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. Options granted under the Plan are non-assignable and vest over various terms from the date of grant.

As at March 31, 2019, the Company had 1,567,863 (December 31, 2018 – 184,137) options available for issuance under the Plan.

The continuity of outstanding stock options for the three month period ended March 31, 2019 and year ended December 31, 2018 is as follows:

	Number of stock options	Weighted average exercise price per share \$
<b>Balance – December 31, 2017</b>	<b>2,255,000</b>	<b>0.16</b>
Granted <sup>(i)</sup>	950,000	0.39
Exercised	(150,000)	0.06
Expired	(250,000)	0.17
<b>Balance – December 31, 2018</b>	<b>2,805,000</b>	<b>0.25</b>
Exercised	(711,600)	0.14
Expired	(38,400)	0.22
<b>Balance – March 31, 2019</b>	<b>2,055,000</b>	<b>0.28</b>

- (i) On April 6, 2018, the Company granted 950,000 options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at \$0.39 per common share. The options granted to officers and directors expire in 5 years and the options granted to consultants expire in 3 years. The resulting fair value of \$316,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 147%; a risk-free interest rate of 1.91% for 3 year options and 2.00% for 5 year options, and an expected average life of 3 - 5 years. The options vested immediately.



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**11. STOCK OPTIONS (continued)**

Options to purchase common shares carry exercise prices and terms to maturity as follows:

Exercise price <sup>(i)</sup> Outstanding	Number of options Outstanding	Exercisable	Expiry date	Remaining contractual life (years) <sup>(i)</sup>
\$				
0.13	225,000	225,000	September 15, 2020	1.46
0.16	110,000	110,000	November 15, 2021	2.63
0.22	550,000	550,000	January 13, 2022	2.79
0.17	220,000	220,000	November 1, 2022	3.59
0.39	500,000	500,000	April 6, 2021	2.02
0.39	450,000	450,000	April 6, 2023	4.02
<b>0.25</b>	<b>2,055,000</b>	<b>2,055,000</b>		<b>2.80</b>

(i) Total represents weighted average.

A summary of the changes in the Company's reserve for share-based payments for the three month period ended March 31, 2019 and year ended December 31, 2018 is set out below:

	Amount \$
<b>Balance – December 31, 2017</b>	<b>280,000</b>
Stock-based compensation	316,000
Transfer of reserve on exercise of options	(6,000)
<b>Balance – December 31, 2018</b>	<b>590,000</b>
Transfer of reserve on exercise of options	(66,000)
<b>Balance – March 31, 2019</b>	<b>524,000</b>

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**12. RESERVE FOR WARRANTS**

The following table reflects the continuity of warrants for the three month period ended March 31, 2019 and year ended December 31, 2018:

	Number of Warrants	Amount \$
<b>Balance – December 31, 2017</b>	-	-
Share purchase warrants issued pursuant to private placement <sup>(i)</sup>	7,166,667	910,000
<b>Balance – December 31, 2018</b>	<b>7,166,667</b>	<b>910,000</b>
Share purchase warrants issued pursuant to private placement <sup>(ii)</sup>	5,625,665	522,000
Share issue costs		(15,225)
<b>Balance – March 31, 2019</b>	<b>12,792,332</b>	<b>1,416,775</b>

- (i) The share purchase warrants issued pursuant to the private placement on February 26, 2018 are described in Note 10(b)(i) above and have an estimated grant date fair value of \$910,000, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	1.74%	Expected volatility <sup>(1)</sup>	130%
Dividend yield	nil	Expected life-units	1.5 years

<sup>(1)</sup> Based on historical trading data.

- (ii) The share purchase warrants issued pursuant to the private placement on March 1 and March 29, 2019 are described in Note 10(b)(iii) above and have an estimated grant date fair value of \$522,000, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	1.55%-1.77%	Expected volatility <sup>(1)</sup>	125%-128%
Dividend yield	nil	Expected life-units	2 years

<sup>(1)</sup> Based on historical trading data.

Details of the warrants outstanding at March 31, 2019 are as follows:

Exercise price	Number and type of outstanding exercisable warrants		Expiry date	Remaining contractual life (years)
\$				
0.50	7,166,667	– Share Purchase Warrants	August 26, 2019	0.66
0.50	5,118,332	– Share Purchase Warrants	March 1, 2021	1.92
0.50	507,333	– Share Purchase Warrants	March 29, 2021	1.99
0.50	12,792,332			1.22

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**13. EXPLORATION AND EVALUATION EXPENDITURES**

The exploration and evaluation expenses for the Company are summarized as follows:

Three month period ended March 31,	2019	2018
Peru Properties	\$ 217,877	\$ 250,228
El Santuario Property	16,136	24,715
<b>Exploration and evaluation expenditures</b>	<b>\$ 234,013</b>	<b>\$ 274,943</b>

**Peru Properties**

Palamina Peru has application and mining rights to certain concessions within the Department of Puno in southeast Peru, and the Department of Ica in the Peruvian coast south of Lima.

**El Santuario Property**

Palamina Mexico holds 100% title interest to the "El Santuario" concession which makes up the El Santuario Property located in the State of Hidalgo, Mexico.

**14. COMMITMENTS AND CONTINGENCIES**

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties. The minimum expenditures to keep the properties in good standing through December 31, 2019 are approximately \$450,000.

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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**15. SEGMENTED INFORMATION**

At March 31, 2019, the Company's operations comprise a single operating segment engaged in mineral exploration in Peru and Mexico. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8, 'Operating Segments'. As the operations comprise a single operating segment for accounting purposes, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

The following is a breakdown of the Company's identifiable assets by geographical location:

<b>As at,</b>	<b>March 31, 2019</b>	December 31, 2018
	\$	\$
Canada	<b>946,155</b>	21,939
Peru	<b>165,248</b>	81,781
Mexico	<b>3,765</b>	4,422
	<b>1,115,168</b>	108,142

**16. SUBSEQUENT EVENT**

On May 15, 2019 Palamina signed a letter of intent to sell 100% of the application and mining rights to the Gaban Gold ("Gaban") and Tinka I.O.C.G. ("Tinka") projects in Peru to Helio Resource Corp. ("Helio"). In exchange Palamina will receive 5 million shares of Helio on closing of the transaction and an additional 5 million shares over a two year period concurrent with future equity financings or shareholder approval by Helio. Helio will also make advance royalty payments ("ARP") to Palamina of \$25,000 to Palamina on the first and second anniversaries of closing. The ARP will double every two years until such time that Helio has either completed a total of 5,000m of drilling or has abandoned the properties. Palamina will also retain a 2% net smelter return royalty ("NSR") on each of the Gaban and Tinka projects. Helio may purchase 1% of the NSR for \$1,000,000 per project.