

PALAMINA CORP.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2020 AND 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

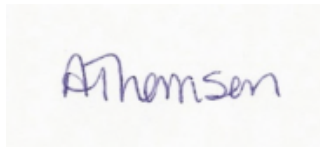
The accompanying unaudited interim consolidated financial statements of Palamina Corp. (the "Company") are the responsibility of the management and Board of Directors of the Company.

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

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, 2020 and 2019 have not been reviewed by the Company's auditors.

PALAMINA CORP.

Unaudited Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

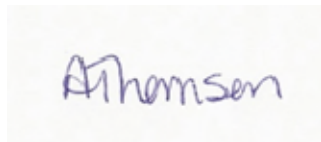
<i>As at,</i>	March 31, 2020	December 31, 2019
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (Note 5)	34,636	34,656
Receivables (Note 6)	3,669	27,899
Prepaid expenses	2,368	20,148
Total current assets	40,673	82,703
Equipment (Note 7)	33,892	33,484
Investment in associate (Note 16)	455,235	480,000
Total assets	529,800	596,187
LIABILITIES AND EQUITY (DEFICIENCY)		
Current		
Trade and other payables (Notes 8 and 9)	721,574	553,170
Total liabilities	721,574	553,170
Equity (Deficiency)		
Share capital (Note 10)	5,657,366	5,657,366
Reserve for share-based payments (Note 11)	787,000	787,000
Reserve for warrants (Note 12)	1,416,775	1,416,775
Accumulated deficit	(8,040,191)	(7,793,830)
Reserve for foreign currency translation	(12,724)	(24,294)
Total equity (deficiency)	(191,774)	43,017
Total liabilities and equity (deficiency)	529,800	596,187

Nature of Operations and Going Concern Uncertainty (Note 1)

Commitments and Contingencies (Note 14)

Events after the reporting period (Note 17)

On behalf of the Board of Directors on May 29, 2020:



Andrew Thomson
Director



Hugh Agro
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)

	2020	2019
For the three months ended March 31,	\$	\$
Expenses		
Exploration and evaluation expenditures (Note 13)	127,423	234,013
Salaries, director and management fees	59,964	81,007
Investor relations	17,817	103,472
Regulatory fees	983	6,000
Professional fees	8,125	13,462
Office and general	8,292	4,664
Rent	4,500	4,500
Foreign exchange (gain) loss	(5,508)	1,951
Total expenses	221,596	449,069
Other (income) expense		
Loss from investment in associate (Note 16)	24,765	-
Net loss	246,361	449,069
Other comprehensive loss - items that will not subsequently reclassify into income		
Exchange on translation of foreign subsidiaries	(11,570)	1,928
Net comprehensive loss	234,791	450,997
Loss per share		
- basic	0.01	0.01
- diluted	0.01	0.01
Weighted average number of common shares outstanding		
- basic	36,303,636	32,287,983
- diluted	36,303,636	32,287,983

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					
Balance at December 31, 2018	29,891,371	\$ 4,337,364	\$ 590,000	\$ 910,000	\$ (6,195,888)	\$ (18,636)	\$ (377,160)
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)
Balance at March 31, 2019	36,228,636	\$ 5,641,516	\$ 524,000	\$ 1,416,775	\$ (6,644,957)	\$ (20,564)	\$ 916,770
Issued pursuant to exercise of stock options	75,000	9,850	-	-	-	-	9,850
Transfer of reserve on exercise of stock options	-	6,000	(6,000)	-	-	-	-
Share based payments	-	-	269,000	-	-	-	269,000
Net loss	-	-	-	-	(1,148,873)	-	(1,148,873)
Other comprehensive loss	-	-	-	-	-	(3,730)	(3,730)
Balance at December 31, 2019	36,303,636	\$ 5,657,366	\$ 787,000	\$ 1,416,775	\$ (7,793,830)	\$ (24,294)	\$ 43,017
Net loss	-	-	-	-	(246,361)	-	(246,361)
Other comprehensive loss	-	-	-	-	-	11,570	11,570
Balance at March 31, 2020	36,303,636	\$ 5,657,366	\$ 787,000	\$ 1,416,775	\$ (8,040,191)	\$ (12,724)	\$ (191,774)

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)

	2020	2019
For the three months ended March 31,	\$	\$
Operating activities		
Net loss for the period	(246,361)	(449,069)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,464	3,678
Unrealized foreign exchange differences	8,620	(936)
Loss from investment in associates	24,765	-
Change in non-cash working capital		
Receivables	16,479	(10,304)
Prepaid expenses	25,531	(29,422)
Trade and other payables	168,404	(286,904)
Cash provided by (used in) operating activities	902	(772,957)
Investing activities		
Purchase of equipment	(922)	(476)
Cash (used in) investing activities	(922)	(476)
Financing activities		
Issuance of share capital and warrants	-	1,687,600
Proceeds from exercise of options	-	105,552
Share issuance costs	-	(48,225)
Cash provided from financing activities	-	1,744,927
Increase (decrease) in cash and cash equivalents	(20)	971,494
Cash and cash equivalents, beginning of period	34,656	40,074
Cash and cash equivalents, end of period	34,636	1,011,568

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, 2020 and 2019
(Expressed in Canadian dollars)

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 a deficiency of current assets over current liabilities of \$680,901 at March 31, 2020; had not yet achieved profitable operations; had accumulated losses of \$8,040,191 at March 31, 2020; and expects to incur further losses in the development of its business. Palamina does not have adequate cash resources to fund its operations over the next twelve months and will require additional financing 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, and accordingly, there is a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

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, 2020 and 2019
(Expressed in Canadian dollars)

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 29, 2020.

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, 2019 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, 2020 and 2019
(Expressed in Canadian dollars)

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 7.

Determination of Significant Influence and Impairment of Investment in Associate

Effective September 19, 2019, which is the date of acquisition, the Company has classified Winshear Gold Corp ("Winshear") as an associate based on management's judgment that the Company has significant influence through board representation and voting rights. Refer to Note 16.

Impairment exists when the carrying value of the investment in associate exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The determination of impairment requires significant judgement and can be triggered by significant adverse changes in the market, economic or legal environment in which the associate operates.

Contingencies – see Note 14.

2.4 COVID-19

At the end of 2019, a novel strain of coronavirus ("COVID-19") was reported in China. The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections around the world. On March 11, 2020, it was labelled a pandemic by the World Health Organization. During the first quarter of 2020, attempts at containment of COVID-19 have resulted in decreased economic activity, which has adversely affected the broader global economy. The rapid development and fluidity of the situation precludes any prediction as to the ultimate impact of COVID-19; however, the Company seeks to obtain the best possible information to enable the assessment of the risks involved, and implement appropriate measures to respond. During the quarter ended March 31, 2020, the Company has taken a number of measures to safeguard the health of its employees and the local communities where it operates.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(Expressed in Canadian dollars)

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, 2020 totaled \$(191,774) (December 31, 2019 - \$43,017).

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 periods ended March 31, 2020 and 2019.

The Company is not subject to any capital requirements imposed by lending institutions.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(Expressed in Canadian dollars)

4. FAIR VALUE AND FINANCIAL RISK FACTORS

Fair value of financial instruments

As at March 31, 2020 and December 31, 2019, 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, 2020 is the carrying value of cash and cash equivalents and receivables.

Liquidity risk

The Company's approach to managing liquidity risk is to endeavor it have sufficient liquidity to meet liabilities when due. As at March 31, 2020, the Company had current assets of \$40,673 (December 31, 2019 - \$82,703) including cash and cash equivalents of \$34,636 (December 31, 2019 - \$34,656) to settle current liabilities of \$721,574 (December 31, 2019 - \$553,170) resulting in working capital deficiency of \$680,901 (December 31, 2019 - \$470,467 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, 2020, the Company had cash and cash equivalents of \$34,636 (December 31, 2019 - \$34,656).

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(Expressed in Canadian dollars)

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 and 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, 2020 would have been approximately \$1,000 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, 2020 would have been approximately \$100 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, 2020, 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, 2020 consists of cash on deposit with major Canadian, Mexican and Peruvian banks in general interest bearing accounts totaling \$34,636 (December 31, 2019 - \$34,656).

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(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, 2020	December 31, 2019
	\$	\$
HST receivable	3,669	3,071
Other receivable	-	24,828
Total receivables	3,669	27,899

As at March 31, 2020, the total value-added taxes receivable is \$9,160 and a provision for non-collection of \$9,160 has been recorded. The Company has recorded a 100% provision of VAT based on historical trends. At March 31, 2020, the Company anticipates full recovery of the \$3,669 (December 31, 2019 - \$27,899). The Company holds no collateral for any receivable amounts outstanding as at March 31, 2020.

7. EQUIPMENT

	Vehicles \$	Equipment \$	Total \$
Cost			
As at December 31, 2018	53,382	18,363	71,745
Additions	-	1,149	1,149
Disposals	(5,724)	-	(5,724)
Foreign exchange translation	(2,186)	(571)	(2,757)
As at December 31, 2019	45,472	18,941	64,413
Additions	-	922	922
Foreign exchange translation	4,198	1,801	5,999
As at March 31, 2020	49,670	21,664	71,334
Accumulated depreciation			
As at December 31, 2018	19,014	3,706	22,720
Depreciation expense	9,290	4,080	13,370
Disposals	(4,532)	-	(4,532)
Foreign exchange translation	(366)	(263)	(629)
As at December 31, 2019	23,406	7,523	30,929
Depreciation expense	2,352	1,112	3,464
Foreign exchange translation	2,293	756	3,049
As at March 31, 2020	28,051	9,391	37,442
Net book value			
As at December 31, 2019	22,066	11,418	33,484
As at March 31, 2020	21,619	12,273	33,892

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(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, 2020	December 31, 2019
	\$	\$
Less than 1 month	24,353	21,763
Over 1 month	697,221	531,407
Total trade and other payables	721,574	553,170

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:

Three months ended March 31,	2020		2019	
Short-term employee benefits	\$	75,000	\$	116,000
Share based payments – options		-		-
Total compensation to key management	\$	75,000	\$	116,000

At March 31, 2020, included in trade and other payables is \$364,000 (December 31, 2019 - \$212,000) due to these key management personnel. These amounts are due on demand, unsecured and non-interest bearing.

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

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(Expressed in Canadian dollars)

10. SHARE CAPITAL

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

	Number of Shares	Amount \$
Balance – December 31, 2018	29,891,371	4,337,364
Issued for cash pursuant to private placement of 5,625,665 units ⁽ⁱ⁾	5,625,665	1,687,600
Warrants issued ⁽ⁱ⁾	-	(522,000)
Share issue costs ⁽ⁱ⁾	-	(33,000)
Issued pursuant to exercise of stock options ⁽ⁱⁱ⁾	786,600	115,402
Transfer of reserve on exercise of stock options ⁽ⁱⁱ⁾	-	72,000
Balance – December 31, 2019 and March 31, 2020	36,303,636	5,657,366

- (i) 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.

- (ii) During 2019, 786,600 stock options were exercised for total proceeds of \$115,402. 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, 261,600 at an exercise price of \$0.22 and 75,000 at an exercise price of \$0.13.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2020 and 2019
(Expressed in Canadian dollars)

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, 2020, the Company had 520,364 (December 31, 2019 – 520,364) options available for issuance under the Plan.

The continuity of outstanding stock options for the three month period ended March 31, 2020 and year ended December 31, 2019 is as follows:

	Number of stock options	Weighted average exercise price per share \$
Balance – December 31, 2018	2,805,000	0.25
Granted ⁽ⁱ⁾	1,330,000	0.25
Exercised	(786,600)	0.14
Expired	(238,400)	0.32
Balance – December 31, 2019 and March 31, 2020	3,110,000	0.27

- (i) On December 19, 2019, the Company granted 1,330,000 options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at \$0.25 per common share. The options granted to officers and directors expire in 5 years and the options granted to consultants expire in 2 years. The resulting fair value of \$269,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 118-134%; a risk-free interest rate of 1.67-1.69%, and an expected average life of 2 - 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 ⁽ⁱ⁾ Outstanding	Number of options		Expiry date	Remaining contractual life (years) ⁽ⁱ⁾
\$	Outstanding	Exercisable		
0.13	150,000	150,000	September 15, 2020	0.71
0.16	110,000	110,000	November 15, 2021	1.88
0.22	550,000	550,000	January 13, 2022	2.04
0.17	170,000	170,000	November 1, 2022	2.84
0.39	350,000	350,000	April 6, 2021	1.27
0.39	450,000	450,000	April 6, 2023	3.27
0.25	300,000	300,000	December 19, 2021	1.97
0.25	1,030,000	1,030,000	December 19, 2024	4.97
0.27	3,110,000	3,110,000		2.93

(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, 2020 and year ended December 31, 2019 is set out below:

	Amount \$
Balance – December 31, 2018	590,000
Stock-based compensation	269,000
Transfer of reserve on exercise of options	(72,000)
Balance – December 31, 2019 and March 31, 2020	787,000

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12. RESERVE FOR WARRANTS

The following table reflects the continuity of warrants for the three month period ended March 31, 2020 and year ended December 31, 2019:

	Number of Warrants	Amount \$
Balance – December 31, 2018	7,166,667	910,000
Share purchase warrants issued pursuant to private placement ⁽ⁱ⁾	5,625,665	522,000
Share issue costs	-	(15,225)
Balance – December 31, 2019 and March 31, 2020	12,792,332	1,416,775

- (i) The share purchase warrants issued pursuant to the private placement on March 1 and March 29, 2019 are described in Note 11(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 ⁽¹⁾	125%-128%
Dividend yield	nil	Expected life-units	2 years

⁽¹⁾Based on historical trading data.

Details of the warrants outstanding at March 31, 2020 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, 2020 ⁽ⁱ⁾	0.65
0.50	5,118,332	– Share Purchase Warrants	March 1, 2021	1.17
0.50	507,333	– Share Purchase Warrants	March 29, 2021	1.24
0.50	12,792,332			0.88

- (i) On August 21, 2019 Palamina extended the expiry date of warrants issued pursuant to a private placement of 7,166,667 units which closed on February 26, 2018 from August 29, 2019 to August 26, 2020.

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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,	2020	2019
Peru Properties	\$ 113,069	\$ 217,877
El Santuario Property	14,354	16,136
Exploration and evaluation expenditures	\$ 127,423	\$ 234,013

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 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.

15. SEGMENTED INFORMATION

At March 31, 2020, 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:

As at,	March 31, 2020	December 31, 2019
	\$	\$
Canada	465,123	518,040
Peru	62,469	76,009
Mexico	2,208	2,174
	529,800	596,187

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16. INVESTMENT IN ASSOCIATE

On September 19, 2019, the Company entered into an agreement with Winshear whereby Palamina sold 100% of the application and mining rights to the Gaban Gold and Tinka I.O.C.G. projects in Peru to Winshear. In exchange Palamina was issued 5 million shares of Winshear and will receive an additional 5 million shares within two years through disinterested shareholder approval of Winshear shareholders or the issuance of shares by Winshear whereby Palamina will own no greater than 19.9% of the issued and outstanding shares of Winshear.

Palamina also retained a 2% Net Smelter Return (“NSR”) royalty on each property. Winshear will have the right to purchase 50% of each royalty by making a cash payment of \$1,000,000 to Palamina at any time prior to the commencement of commercial production. Winshear will make an Advance Royalty Payment (“ARP”) of \$25,000 to Palamina on September 19, 2020 and 2021. The ARP will double every two years, beginning September 19, 2022, until such time that Winshear has either completed a total of 5,000m of drilling or has abandoned the properties. Palamina will act as operator of the two projects for the first year and has appointed two directors to the Winshear board.

As a result of the issuance of 5 million shares, Palamina held 15.4% of the issued and outstanding shares of Winshear as at September 19, 2019. Due to these shareholdings and the two directors it has appointed to the board of Winshear, the Company has determined that it has significant influence over Winshear and has accounted for its investment as an Investment in Associate using the equity basis of accounting. The Company recorded a fair value of \$527,000 for its interest in the 5 million Winshear shares issued to Palamina on September 19, 2019 and, due to the certainty of issuance, 5 million shares to be issued within two years.

Fair value of the 10 million Winshear shares (\$527,000) was estimated using the specifics of a Winshear private placement completed on the same date Palamina entered into the agreement with Winshear (“Winshear Private Placement”). The Winshear Private Placement consisted of a unit priced at \$0.06 with each unit comprised of one common share and one half common share purchase warrant. The fair value calculation included a deduction for the one half common share purchase warrant using the Black-Scholes option pricing model. Fair value of one Winshear share as at March 31, 2020 was \$0.05.

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16. INVESTMENT IN ASSOCIATES (Continued)

Changes in the investment in associate for the three month period ended March 31, 2020 and period ended December 31, 2019 were as follows:

	\$
Acquisition September 19, 2019, at fair value	\$527,000
Proportionate share of net loss	(47,000)
Balance – December 31, 2019	\$480,000
Proportionate share of net loss	(24,765)
Balance – March 31, 2020	\$455,235

17. SUBSEQUENT EVENT

On May 5, 2020 the Company closed a non-brokered private placement offering of 8,800,000 units at a purchase price of \$0.125 per unit, for aggregate gross proceeds of \$1,100,000. Each unit consists of one common share and one half of one warrant. Each whole warrant is exercisable to acquire one common share at a price of \$0.35 until May 5, 2022. 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 Offering, the closing price of the Common Shares on the TSX Venture Exchange is equal to or greater than \$0.70 for 10 consecutive trading days.