

PALAMINA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of Palamina Corp.

Opinion

We have audited the consolidated financial statements of Palamina Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years ended December 31, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2022 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material uncertainty related to going concern section, we have determined that there were no additional key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

McGovern Hurley

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner of the audit resulting in this independent auditor's report is Chris Milios.

McGovern Hurley LLP

A handwritten signature in black ink that reads "McGovern Hurley LLP". The signature is written in a cursive, flowing style.

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
May 1, 2023

PALAMINA CORP.

Consolidated Statements of Financial Position As at

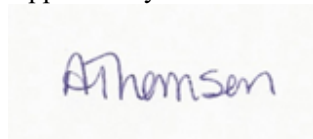
(Expressed in Canadian Dollars)		December 31, 2022	December 31, 2021	December 31, 2020
ASSETS			Restated (Note 3)	Restated (Note 3)
Current assets				
Cash and cash equivalents	Note 7	\$ 81,302	\$ 2,233,309	\$ 61,713
Receivables	Note 8	9,562	60,800	8,085
Prepaid expenses	Note 9	165,810	238,427	1,500
		256,674	2,532,536	71,298
Non-current assets				
Equipment	Note 10	38,304	26,457	8,027
Investment in associate	Note 19	11,114	105,065	132,155
Total Assets		\$ 306,092	\$ 2,664,058	\$ 211,480
LIABILITIES AND EQUITY (DEFICIENCY)				
Current liabilities				
Accounts payable and accrued liabilities	Notes 11, 12	\$ 442,569	\$ 522,050	\$ 425,140
Total Liabilities		442,569	522,050	425,140
Shareholders' Equity (Deficiency)				
Share capital	Note 13	9,457,488	9,457,488	6,480,295
Stock option reserve	Note 14	1,198,286	1,178,044	880,287
Warrant reserve	Note 15	1,947,000	2,215,000	774,775
Foreign currency translation		(23,220)	(15,707)	(11,283)
Deficit		(12,716,031)	(10,692,817)	(8,337,734)
Total Shareholders' Equity (Deficiency)		(136,477)	2,142,008	(213,660)
Total Liabilities and Shareholders' Equity (Deficiency)		\$ 306,092	\$ 2,664,058	\$ 211,480

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 17)

Subsequent Events (Note 21)

Approved by the Board of Directors and authorized on May 1, 2023:



Andrew Thomson
Director



Christina McCarthy
Director

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

PALAMINA CORP.

Consolidated Statements of Loss and Comprehensive Loss For the years ended

(Expressed in Canadian Dollars)		December 31,	
		2022	2021
Expenses			
Exploration and evaluation expenditures	Notes 12, 16	\$ 1,529,059	\$ 1,801,513
Salaries, director and management fees	Note 12	304,935	267,287
Share-based compensation	Notes 12, 14	121,575	500,000
Investor relations		137,282	115,148
Shareholder costs and filing fees		40,774	79,239
Professional fees		69,882	80,604
Office and general		55,571	40,082
Depreciation	Note 10	8,168	4,620
Total expenses		2,267,246	2,888,493
Other (income) expense			
Bank charges		2,189	2,591
Foreign exchange loss		7,263	9,214
Interest income		(6,417)	(6,300)
Advance royalty	Note 19	(64,685)	(31,137)
Share of loss of associate	Note 19	186,951	201,240
Net loss for the year		2,392,547	3,064,101
Other comprehensive loss - items that will not subsequently reclassify into income			
Exchange on translation of foreign subsidiaries		7,513	4,424
Net comprehensive loss for the year		\$ 2,400,060	\$ 3,068,525
Net Loss per share			
Basic and diluted loss per share		\$ 0.04	\$ 0.05
Weighted average number of shares outstanding - basic and diluted		65,284,836	56,024,562

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

PALAMINA CORP.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)	Share Capital		Reserves		Foreign Currency Translation	Deficit	Total
	Number of shares	Amount	Stock Options	Warrants			
Balance at December 31, 2020 (Note 3)	45,284,836	\$ 6,480,295	\$ 880,287	\$ 774,775	\$ (11,283)	\$ (8,337,734)	\$ (213,660)
Issued pursuant to private placement	20,000,000	5,000,000	-	-	-	-	5,000,000
Warrants issued pursuant to private placement	-	(1,935,000)	-	1,935,000	-	-	-
Broker warrants issued pursuant to private placement	-	(12,000)	-	12,000	-	-	-
Share issue costs	-	(75,807)	-	-	-	-	(75,807)
Expiry of stock options	-	-	(202,243)	-	-	202,243	-
Expiry of warrants	-	-	-	(506,775)	-	506,775	-
Share-based compensation	-	-	500,000	-	-	-	500,000
Net loss for the year	-	-	-	-	-	(3,064,101)	(3,064,101)
Other comprehensive loss	-	-	-	-	(4,424)	-	(4,424)
Balance at December 31, 2021 (Note 3)	65,284,836	9,457,488	1,178,044	2,215,000	(15,707)	(10,692,817)	\$ 2,142,008
Expiry of stock options	-	-	(101,333)	-	-	101,333	-
Expiry of warrants	-	-	-	(268,000)	-	268,000	-
Share-based compensation	-	-	121,575	-	-	-	121,575
Net loss for the year	-	-	-	-	-	(2,392,547)	(2,392,547)
Other comprehensive loss	-	-	-	-	(7,513)	-	(7,513)
Balance at December 31, 2022	65,284,836	\$ 9,457,488	\$ 1,198,286	\$ 1,947,000	\$ (23,220)	\$ (12,716,031)	\$ (136,477)

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

PALAMINA CORP.

Consolidated Statements of Cash Flows For the years ended

(Expressed in Canadian Dollars)	December 31,	
	2022	2021
Cash flows from operating activities		
Net loss for the year	\$ (2,392,547)	\$ (3,064,101)
Adjustments not affecting cash:		
Share-based compensation	Note 14 121,575	500,000
Depreciation	Note 10 8,168	4,620
Unrealized foreign exchange differences	(9,447)	(4,604)
Shares received as payment from investment in associate	Note 19 -	(42,000)
Share of loss of associate	Note 19 186,951	201,240
Operating cash flows before changes in non-cash working capital:	(2,085,300)	(2,404,845)
Changes in non-cash working capital:		
Receivables	51,238	(52,715)
Prepaid expenses	72,617	(236,927)
Accounts payable and accrued liabilities	(79,481)	96,910
Cash used in operating activities	(2,040,926)	(2,597,577)
Cash flows from investing activities		
Purchase of equipment	Note 10 (18,081)	(22,870)
Investment in associate	Note 19 (93,000)	(132,150)
Cash used in investing activities	(111,081)	(155,020)
Cash flows from financing activities		
Proceeds from private placement	Note 13 -	5,000,000
Share issuance costs	Note 13 -	(75,807)
Cash provided by financing activities	-	4,924,193
(Decrease) increase in cash and cash equivalents	(2,152,007)	2,171,596
Cash and cash equivalents, beginning of year	2,233,309	61,713
Cash and cash equivalents, end of year	\$ 81,302	\$ 2,233,309
Supplemental Information		
Issuance of finder warrants	-	12,000
Shares received for debt settlement	-	42,000

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

PALAMINA CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 is listed on the TSX Venture Exchange (“TSX-V”) having the symbol PA and on the OTCQB under the symbol PLMNF. The Company’s head office is located at 145 King Street West, Suite 2870 Toronto, Ontario M5H 1J8.

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. 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 consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations. Changes in future conditions could require material write downs of the carrying values.

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. The Company’s exploration property interests may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

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 working capital deficiency at December 31, 2022 of \$185,895 (December 31, 2021 - \$2,010,486 working capital); had not yet achieved profitable operations; had accumulated losses of \$12,716,031 at December 31, 2022 (December 31, 2021 - \$10,692,817); 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.

PALAMINA CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved and authorized by the Board of Directors of the Company on May 1, 2023.

2.2 Basis of presentation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Certain comparative figures have been reclassified to conform to the current year’s presentation. These reclassifications did not affect prior year’s net losses.

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, tax provisions, determination of significant influence and impairment of investment in associate, and contingencies. 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 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 14.

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 Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (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.

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 (see Note 19).

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 17.

PALAMINA CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

3. CHANGE IN ACCOUNTING POLICY

During the year ended December 31, 2022, the Company changed its accounting policy with respect to recording the expiry of stock options and warrants in shareholders' equity. The Company believes that this change will provide more reliable and relevant financial information. For those stock options and warrants that are cancelled or expire unexercised, the recorded value is transferred to deficit. Previously, this value was left in the respective reserve accounts.

The financial statements for the year ended December 31, 2021 have been restated to reflect adjustments made as a result of this change in accounting policy. The statement of loss and comprehensive loss and statement of cash flows for the year ended December 31, 2021 are unaffected by this change.

The following is a reconciliation of the Company's statements of financial position as at December 31, 2021 and 2020:

Consolidated Statement of Financial Position

	As at December 31, 2021		
(Expressed in Canadian Dollars)	As previously reported	Adjustment ⁽¹⁾	Restated
Assets			
Current assets			
Cash and cash equivalents	\$ 2,233,309	\$ -	\$ 2,233,309
Receivables	60,800	-	60,800
Prepaid expenses	238,427	-	238,427
	2,532,536	-	2,532,536
Non-current assets			
Equipment	26,457	-	26,457
Investment in associate	105,065	-	105,065
Total Assets	\$ 2,664,058	\$ -	\$ 2,664,058
Liabilities and Equity			
Current liabilities			
Trade and other payables	\$ 522,050	\$ -	\$ 522,050
Total Liabilities	522,050	-	522,050
Shareholders' Equity			
Share capital	9,457,211	277	9,457,488
Stock option reserve	1,518,000	(339,956)	1,178,044
Warrant reserve	3,631,775	(1,416,775)	2,215,000
Foreign currency translation reserve	(15,707)	-	(15,707)
Deficit	(12,449,271)	1,756,454	(10,692,817)
Total Shareholders' Equity	2,142,008	-	2,142,008
Total Liabilities and Shareholders' Equity	\$ 2,664,058	\$ -	\$ 2,664,058

(1) Adjustment from change in accounting policy with respect to stock options and warrants.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

3. CHANGE IN ACCOUNTING POLICY (Continued)

Consolidated Statement of Financial Position

As at December 31, 2020			
(Expressed in Canadian Dollars)	As previously reported	Adjustment ⁽¹⁾	Restated
Assets			
Current assets			
Cash and cash equivalents	\$ 61,713	\$ -	\$ 61,713
Receivables	8,085	-	8,085
Prepaid expenses	1,500	-	1,500
	71,298	-	71,298
Non-current assets			
Equipment	8,027	-	8,027
Investment in associate	132,155	-	132,155
Total Assets	\$ 211,480	\$ -	\$ 211,480
Liabilities and Equity			
Current liabilities			
Trade and other payables	\$ 425,140	\$ -	\$ 425,140
Total Liabilities	425,140	-	425,140
Shareholders' Equity (Deficiency)			
Share capital	6,480,018	277	6,480,295
Stock option reserve	1,018,000	(137,713)	880,287
Warrant reserve	1,684,775	(910,000)	774,775
Foreign currency translation reserve	(11,283)	-	(11,283)
Deficit	(9,385,170)	1,047,436	(8,337,734)
Total Shareholders' Deficiency	(213,660)	-	(213,660)
Total Liabilities and Shareholders' Equity (Deficiency)	\$ 211,480	\$ -	\$ 211,480

(1) Adjustment from change in accounting policy with respect to stock options and warrants.

PALAMINA CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries: Palamina S.A. de C.V., a company based in Mexico and Palamina SAC, a company based in Peru.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases.

All inter-company transactions, balances, income and expenses are eliminated on consolidation.

4.2 Mineral properties

All exploration and evaluation costs, including the cost of acquiring exploration rights are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized to mineral properties or property, plant and equipment (“PPE”). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated reserves as the depletion base. Consideration received under mineral property option agreements, including advance royalty payments, is recorded as other income.

4.3 Decommissioning, restoration and similar liabilities (“Asset retirement obligation” or “ARO”)

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is expensed as incurred. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2022 and 2021 there were no AROs.

4.4 Taxation

Income tax expense represents the sum of tax currently payable and deferred income tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the consolidated statement of financial position between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

PALAMINA CORP.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

PALAMINA CORP.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The dilutive effect of outstanding options and warrants is calculated assuming that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. All outstanding option and warrants are antidilutive as at and for the years ended December 31, 2022 and 2021 and have been excluded from the calculation of diluted loss per share.

4.6 Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following categories: fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through net loss.

Financial assets classified as amortized cost are initially measured at fair value. Subsequently they are measured at amortized cost. The Company’s cash, cash equivalents and receivables are designated as amortized cost.

Financial assets classified as FVOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). As at December 31, 2022 and 2021, the Company had no assets classified as FVOCI.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

The Company’s financial assets subject to impairment are receivables which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable has been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

PALAMINA CORP.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or amortized cost.

Financial liabilities classified as amortized cost are initially recognized at fair value less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss. At December 31, 2022 and 2021, the Company has not classified any financial liabilities as FVTPL.

4.8 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

PALAMINA CORP.

Notes to the Consolidated Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, and short-term deposits with a remaining maturity at the date of acquisition of three months or less which are readily convertible into a known amount of cash.

4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4.11 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, and related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4.12 Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is the Canadian dollar and the functional currency of Palamina Mexico is the Mexican peso. The functional currency of Palamina Peru is the US\$. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of loss.

PALAMINA CORP.
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group companies

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of that statement of financial position,
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transaction), and
- all resulting exchange differences are recognized as a separate component of equity.

4.13 Equipment

Equipment is measured at cost less accumulated depreciation and any impairment losses. Depreciation is recognized in net loss and is calculated as follows:

Vehicles and equipment	20% declining
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4.14 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

Share based payment transactions involving non-employees are measured at the estimated fair value of the goods or services received. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the estimated fair value of the equity instruments at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided, that all other performance and/or service conditions are satisfied.

PALAMINA CORP.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

For those stock options and warrants that are cancelled or expire unexercised, the recorded value is transferred to deficit.

4.15 Investments in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments over which the Company has the ability to significantly influence are initially recorded at cost. When the initial recognition of the investment in the associate occurs as a result of a loss of control of a former subsidiary, the fair value of the retained interest in the former subsidiary on the date of the loss of control is deemed to be the cost on initial recognition. Investment income (loss) is calculated using the equity method.

The Company's share of the associate's profit or loss is recognized in the statement of loss and its share of movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate, equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statement of loss.

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investors' interests in the associate. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising in investments in associates are recognized in the statement of loss.

The investment account of the investor reflects:

- i) the cost of the investment in the investee;
- ii) the investment income or loss (including the investor's proportionate share of discontinued operations and extraordinary items) relating to the investee subsequent to the date when the use of the equity method first became appropriate; and
- iii) the investor's proportion of dividends paid by the investee subsequent to the date when the use of the equity method first became appropriate.

PALAMINA CORP.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 New accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2023. Many are not applicable or do not have a significant impact to the Company and have been excluded. The impact of the pronouncements noted below are currently being assessed by the Company.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined. Early adoption is permitted.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 1 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

5. 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 and accumulated deficit, which at December 31, 2022 totaled a deficiency of (\$136,477) (December 31, 2021 – equity of \$2,142,008).

PALAMINA CORP.

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5. CAPITAL MANAGEMENT (Continued)

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 years ended December 31, 2022 and 2021.

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

6. FINANCIAL INSTRUMENTS

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. The Company does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up to date market information. A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

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.

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.

Interest rate risk

The Company has cash and cash equivalent 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 its investments to ensure that it is satisfied with the credit ratings of the investments. As at December 31, 2022, the Company had cash and cash equivalents of \$81,302 (December 31, 2021 - \$2,233,309).

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.

PALAMINA CORP.

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6. FINANCIAL INSTRUMENTS (Continued)

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. Management believes the risk of loss is minimal. The Company's maximum exposure to credit risk as at December 31, 2022 is the carrying value of cash and cash equivalents and receivables.

Liquidity risk

The Company's approach to managing liquidity risk is to endeavor to have sufficient liquidity to meet liabilities when due. As at December 31, 2022, the Company had current assets of \$256,674 (December 31, 2021 - \$2,532,536) including cash and cash equivalents of \$81,302 (December 31, 2021 - \$2,233,309) to settle current liabilities of \$442,569 (December 31, 2021 - \$522,050) resulting in a working capital deficiency at December 31, 2022 of \$185,895 (December 31, 2021 - \$2,010,486 surplus).

The Company's financial assets and liabilities as at December 31, 2022 and 2021 were as follows:

	Amortized Cost	FVTPL	Total
December 31, 2021			
Financial assets			
Cash and cash equivalents	\$ 2,233,309	\$ -	\$ 2,233,309
Receivables	\$ 60,800	\$ -	\$ 60,800
Financial liabilities			
Accounts payable and accrued liabilities	\$ 522,050	\$ -	\$ 522,050
December 31, 2022			
Financial assets			
Cash and cash equivalents	\$ 81,302	\$ -	\$ 81,302
Receivables	\$ 9,562	\$ -	\$ 9,562
Financial liabilities			
Accounts payable and accrued liabilities	\$ 442,569	\$ -	\$ 442,569

The fair values of these financial instruments approximate their carrying values because of their short-term nature.

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 denominated in the U.S. dollar and Peruvian sol, that give rise to foreign exchange risk. If the U.S. dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, net comprehensive loss for the year ended December 31, 2022 would have been approximately \$1,000 higher/lower. If the Peruvian sol rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the year ended December 31, 2022 would have been approximately \$100 higher/lower.

PALAMINA CORP.

Notes to the Consolidated Financial Statements

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6. FINANCIAL INSTRUMENTS (Continued)

(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 December 31, 2022, 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.

7. CASH AND CASH EQUIVALENTS

The balance at December 31, 2022 consists of cash on deposit with major Canadian and Peruvian banks in general interest-bearing accounts totaling \$81,302 (December 31, 2021 - \$233,309) and cashable guaranteed investment certificates with major Canadian banks of \$nil (December 31, 2021 - \$2,000,000) for total cash and cash equivalents of \$81,302 (December 31, 2021 - \$2,233,309).

8. RECEIVABLES

The Company's receivables arise primarily from harmonized sales tax ("HST") due from the Canadian government and the from the requirement for Winshear, the Company's associate, to reimbursement Palamina for certain exploration and evaluation expenditures paid on its behalf. These amounts are denominated in U.S. dollars.

	December 31, 2022	December 31, 2021
HST receivable	\$ 9,562	\$ 34,890
Due from associate (see Notes 12 and 19)	-	25,910
	\$ 9,562	\$ 60,800

As at December 31, 2022, the Company anticipates full recovery of the \$9,562 (December 31, 2021 - \$60,800).

9. PREPAID EXPENSES

On June 10, 2021 Palamina entered into a services agreement with Goldspot Discoveries Corp. ("Goldspot"). The service agreement provided for a pre-payment of \$350,000 for strategic technical services to be provided by Goldspot to Palamina over a 12-month period. During the year ended December 31, 2022, \$108,585 (2021 - \$121,399) in consulting services were incurred.

The prepaid balance as at December 31, 2022 is comprised of \$120,016 (December 31, 2021 - \$228,601) in advances to Goldspot as well as insurance and other advance fees and deposits amounting to \$45,794 (December 31, 2021 - \$9,826).

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10. EQUIPMENT

	Equipment
Cost	
As at December 31, 2021	\$ 42,727
Additions	18,081
Foreign exchange translation	3,675
As at December 31, 2022	64,483
Accumulated depreciation	
As at December 31, 2021	16,270
Depreciation expense	8,168
Foreign exchange translation	1,741
As at December 31, 2022	26,179
Net book value - December 31, 2022	\$ 38,304
	Equipment
Cost	
As at December 31, 2020	\$ 19,673
Additions	22,870
Foreign exchange translation	184
As at December 31, 2021	42,727
Accumulated depreciation	
As at December 31, 2020	11,646
Depreciation expense	4,620
Foreign exchange translation	4
As at December 31, 2021	16,270
Net book value – December 31, 2021	\$ 26,457

All equipment is located in Peru and owned by Palamina Peru.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities 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 accounts payable and accrued liabilities:

	December 31, 2022	December 31, 2021
Less than 1 month	\$ 13,409	\$ 152,566
Over 1 month	429,160	369,484
Total trade and other payables	\$ 442,569	\$ 522,050

PALAMINA CORP.

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12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key Management Compensation

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. Current key management of Palamina includes the Company's directors and officers.

Year ended December 31,	2022	2021
Management fees – President and CEO	\$ 175,000	\$ 138,542
Management fees – former CFO	54,167	65,000
Management fees – current CFO	16,000	-
Directors' fees	55,500	55,500
Total fees paid to management and directors	300,667	259,042
Share-based payments	56,840	281,000
	\$ 357,507	\$ 540,042

Related Party Transactions

On June 18, 2021, directors, officers and other related parties subscribed for 9,919,000 units at a price of \$0.25 per unit, as part of the 20,000,000 unit non-brokered private placement (see Note 13).

On January 18, 2022, the Company received a payment of US\$20,438 (CDN\$25,910) from its associate Winshear, in respect of the reimbursement of amounts owing to the Company as at December 31, 2021.

On August 19, 2022, Palamina purchased 1,550,000 units of Winshear's private placement for \$93,000 to hold 13,422,000 shares, or 18.53% of Winshear (see Note 19).

On August 25, 2022, the Company received a payment of US\$79,667 (CDN\$102,965) from its associate Winshear. US\$50,000 (CDN\$64,685) was in respect of the 2022 advance royalty payment due September 19, 2022 and US\$29,667 (CDN\$38,280) in respect of the reimbursement of amounts owing to the Company for the period January 1 to June 30, 2022.

On December 9, 2022, the Company received a payment of US\$20,761 (CDN\$28,298) from its associate Winshear, in respect of the reimbursement of amounts owing to the Company for the period July 1 to December 31, 2022.

At December 31, 2022, \$90,835 (December 31, 2021 - \$15,280) included in accounts payable and accrued liabilities was owing to related parties. These amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

As at December 31, 2022, \$nil (December 31, 2021 - \$25,910 (US\$20,438)) included in receivables is due from the Company's associate Winshear. The balance is unsecured, non-interest bearing and due on demand.

PALAMINA CORP.

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13. SHARE CAPITAL

a) Authorized: An unlimited number of common shares with no par value

b) Issued and outstanding:

		Number of Shares	Amount
Balance at December 31, 2020		45,284,836	\$ 6,480,295
Private placement of \$0.25 units – June 18, 2021	(i)	20,000,000	5,000,000
Less: warrant valuation	(i)	-	(1,935,000)
Share issue costs – cash	(i)	-	(75,807)
Share issue costs – fair value of finder warrants	(i)	-	(12,000)
Balance at December 31, 2021 and 2022		65,284,836	\$ 9,457,488

- (i) On June 18, 2021, the Company closed a non-brokered private placement offering of 20,000,000 units at a price of \$0.25 per unit, for aggregate gross proceeds of \$5,000,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable to acquire one common share at a price of \$0.40 for 24 months until June 18, 2023.

The Company paid a cash finder's fee of \$12,000 and issued 48,000 finder's warrants equal to six percent of the aggregate number of units sold under the offering attributable to the finder. Each finder warrant shall be exercisable to acquire one unit of the Company for a period of two years from the closing date at an exercise price of \$0.25 per unit. The issue date fair value of the warrants was estimated to be \$12,000 based on their Black-Scholes value. The Company also incurred \$63,807 of other share issue costs associated with the offering.

14. STOCK OPTIONS

On September 15, 2015, the Company adopted a stock option plan (the "Plan") under which the Board of Directors of the Company may grant options to directors, officers, employees and consultants to purchase common shares of the Company. The maximum number of common shares reserved for issuance 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 December 31, 2022, the Company had 913,483 (December 31, 2021 – 1,693,483) options available for issuance under the Plan.

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14. STOCK OPTIONS (Continued)

The following table reflects the continuity of stock options for the years ended December 31, 2022 and 2021:

	Number of Stock Options	Weighted Average Exercise Price
Balance – December 31, 2020	3,770,000	\$0.29
Granted ^{(i), (ii), (iii)}	1,990,000	\$0.32
Expired	(925,000)	\$0.29
Balance – December 31, 2021	4,835,000	\$0.30
Granted ^{(iv), (v)}	1,400,000	\$0.12
Expired	(620,000)	\$0.21
Balance – December 31, 2022	5,615,000	\$0.26

Stock Option Grants

- (i) On June 10, 2021, the Company granted options to purchase up to 150,000 common shares of the Company to a consultant at an exercise price of \$0.25 per share for a period of two years. The options vested immediately. The Company recorded \$26,000 of share-based compensation, being the entire grant date fair value.
- (ii) On July 16, 2021, the Company granted options to purchase up to 1,790,000 common shares of the Company to certain officers, directors and consultants at an exercise price of \$0.33 per share. The options granted to officers and directors expire in five years, and the options granted to consultants expire in three years. The options vested immediately. The Company recorded \$216,000 and \$254,000 of share-based compensation with respect to the three-year and five-year options, respectively, being the entire grant date fair value.
- (iii) On October 29, 2021, the Company's granted options to purchase up to 50,000 common shares of the Company to a consultant at an exercise price of \$0.28 per share for a period of three years. The options vest half on February 2, 2022 and half on February 2, 2023. The grant date fair value was estimated to be \$10,000 using the Black-Scholes option pricing model with the assumptions noted below. The Company recorded share-based compensation of \$5,700 (2021 - \$4,000) based on the vested portion during these periods.
- (iv) On April 8, 2022, the Company granted options to purchase up to 250,000 common shares of the Company to consultants at an exercise price of \$0.17 per share for a period of three years. The options vested immediately. The Company recorded \$26,425 of share-based compensation, being the entire grant date fair value.
- (v) On November 29, 2022, the Company granted options to purchase up to 1,150,000 common shares of the Company to certain officers, directors and consultants at an exercise price of \$0.11 per share. The options granted to officers and directors expire in five years, and the options granted to consultants expire in three years. The options vested immediately. The Company recorded \$69,020 and \$20,430 of share-based compensation with respect to the three-year and five-year options, respectively, being the entire grant date fair value.

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14. STOCK OPTIONS (Continued)

The fair value of the options in the above noted grants, are estimated on the dates of grant using the Black-Scholes option pricing model with the following assumptions:

Grant Date	Stock Price	Exercise Price	Risk-free Interest Rate	Expected Stock Price Volatility	Expected Life (in years)	Expected Dividend Rate	Expected Forfeiture Rate
June 10, 2021	\$0.26	\$0.25	0.31%	134%	2	0%	0%
July 16, 2021	\$0.33	\$0.33	0.62%	128%	3	0%	0%
July 16, 2021	\$0.33	\$0.33	0.87%	129%	5	0%	0%
October 29, 2021	\$0.28	\$0.28	1.50%	126%	3	0%	0%
April 8, 2022	\$0.165	\$0.17	2.47%	104%	3	0%	0%
November 29, 2022	\$0.105	\$0.11	3.24%	105%	5	0%	0%
November 29, 2022	\$0.105	\$0.11	3.71%	105%	3	0%	0%

Stock Option Expiries

During the year ended December 31, 2021, options to purchase up to 925,000 common shares of the Company at a weighted average exercise price of \$0.29, expired unexercised. Grant date fair value of \$202,243 was transferred from stock option reserve to deficit.

On January 13, 2022, options to purchase up to 450,000 common shares of the Company at an exercise price of \$0.22 per share, granted on January 13, 2017, expired unexercised. Grant date fair value of \$78,924 was transferred from stock option reserve to deficit.

On November 1, 2022, options to purchase up to 170,000 common shares of the Company at an exercise price of \$0.17 per share, granted on November 1, 2017, expired unexercised. Grant date fair value of \$22,409 was transferred from stock option reserve to deficit.

The following table reflects the stock options outstanding and exercisable at December 31, 2022:

Grant Date	Number of options		Exercise Price	Expiry Date	Remaining contractual life (years)	Grant Date Fair Value
	Outstanding	Exercisable				
April 6, 2018	400,000	400,000	\$0.39	April 6, 2023	0.26	\$ 141,333
December 19, 2019	880,000	880,000	\$0.25	December 19, 2024	1.97	191,378
September 9, 2020	210,000	210,000	\$0.30	September 9, 2023	0.69	38,000
September 9, 2020	735,000	735,000	\$0.30	September 9, 2025	2.69	206,000
June 10, 2021	150,000	150,000	\$0.25	June 10, 2023	0.44	26,000
July 17, 2021	890,000	890,000	\$0.33	July 17, 2024	1.54	216,000
July 17, 2021	900,000	900,000	\$0.33	July 17, 2026	3.54	254,000
October 29, 2021	50,000	25,000	\$0.28	October 29, 2024	1.80	9,700
April 8, 2022	250,000	250,000	\$0.17	April 8, 2025	2.27	26,425
November 29, 2022	850,000	850,000	\$0.11	November 29, 2027	4.91	69,020
November 29, 2022	300,000	300,000	\$0.11	November 29, 2025	2.91	20,430
	5,615,000	5,590,000	\$0.26		2.54	\$1,198,286

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14. STOCK OPTIONS (Continued)

The weighted average remaining contractual life of options outstanding and exercisable at December 31, 2022 is 2.54 years (December 31, 2021 – 2.71 years) at a weighted average exercise price of \$0.26 (December 31, 2021 - \$0.30).

15. WARRANTS

The following table reflects the continuity of warrants for the years ended December 31, 2022 and 2021:

	Number of Warrants	Issue Date Fair Value
Balance – December 31, 2020	10,072,465	\$ 774,775
Warrants issued pursuant to private placement ⁽ⁱ⁾	20,000,000	1,935,000
Broker warrants issued pursuant to private placement ⁽ⁱ⁾	48,000	12,000
Warrants expired	(5,625,665)	(506,775)
Balance – December 31, 2021	24,494,800	2,215,000
Warrants expired	(4,446,800)	(268,000)
Balance – December 31, 2022	20,048,000	\$ 1,947,000

- (i) The 20,000,000 share purchase warrants exercisable at \$0.40 and the 48,000 broker warrants exercisable at \$0.25, were issued pursuant to the private placement that closed on June 18, 2021 (see Note 13(b)(i)). They have estimated issue date fair values of \$1,935,000 and \$12,000, respectively which were estimated using the Black-Scholes option pricing model using the following assumptions:

Issue Date	Stock Price	Exercise Price	Risk-free Interest Rate	Expected Stock Price Volatility	Expected Life (in years)	Expected Dividend Rate	Expected Forfeiture Rate
June 18, 2021	\$0.35	\$0.40	0.45%	133%	2	0%	0%
June 18, 2021	\$0.35	\$0.25	0.45%	133%	2	0%	0%

As at December 31, 2022, the following warrants were outstanding. The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Warrants Outstanding	Exercise Price	Weighted Average Remaining Life (years)	Expiry Date	Issue Date Fair Value
20,000,000	\$0.40	0.46	June 18, 2023	\$ 1,935,000
48,000	\$0.25	0.46	June 18, 2023	12,000
20,048,000	\$0.40	0.46		\$ 1,947,000

16. EXPLORATION AND EVALUATION EXPENDITURES

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

	For the years ended December 31,	
	2022	2021
Peru Properties	\$ 1,455,566	\$ 1,743,565
El Santuario Property	73,493	57,948
	\$ 1,529,059	\$ 1,801,513

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16. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

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.

17. 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. Failure 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.

18. SEGMENTED INFORMATION

As at December 31, 2022, 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 December 31, 2022	Canada	Peru	Mexico	Total
Cash and cash equivalents	\$ 56,875	\$ 22,440	\$ 1,987	\$ 81,302
Receivables	9,562	-	-	9,562
Prepaid expenses	165,810	-	-	165,810
Equipment	-	38,304	-	38,304
Investment in associate	11,114	-	-	11,114
	\$ 243,361	\$ 60,744	\$ 1,987	\$ 306,092

As at December 31, 2021	Canada	Peru	Mexico	Total
Cash and cash equivalents	\$ 2,026,187	\$ 205,346	\$ 1,776	\$ 2,233,309
Receivables	60,800	-	-	60,800
Prepaid expenses	233,097	5,330	-	238,427
Equipment	-	26,457	-	26,457
Investment in associate	105,065	-	-	105,065
	\$ 2,425,149	\$ 237,133	\$ 1,776	\$ 2,664,058

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19. INVESTMENT IN ASSOCIATE

On September 19, 2019, the Company entered into an agreement with Winshear Gold Corp. ("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 ("Winshear Sale"). In exchange, Palamina was issued 5,000,000 shares of Winshear during the year ended December 31, 2019 and another 5,000,000 common shares of Winshear during the year ended December 31, 2020.

Palamina retained a 2% Net Smelter Return ("NSR") royalty on each property. Winshear will have the right to purchase 50% of the royalty by making a cash payment of \$1,000,000 to Palamina at any time prior to the commencement of commercial production. Winshear made an Advance Royalty Payment ("ARP") of US\$25,000 to Palamina on September 19, 2020 and 2021. The ARP will double every two years, beginning September 19, 2022 (paid), until such time that Winshear has either completed a total of 5,000 metres of drilling or has abandoned the properties. On August 25, 2022, Winshear paid US\$50,000 (CDN\$64,685) to Palamina in respect of the September 19, 2022 ARP. Palamina acts as operator of the two projects and has appointed two directors to the Winshear board.

On September 13, 2021, Palamina entered into a share for debt agreement with Winshear to convert the ARP receivable of \$31,137 (US\$25,000) due September 19, 2021 and trade receivables of \$10,863 (US\$8,700) to 525,000 common shares of Winshear valued at \$0.08, or \$42,000. The common shares of Winshear were issued on October 8, 2021.

On October 22, 2021, Palamina purchased 255,000 common shares of Winshear privately valued at \$0.09 or \$22,950.

On December 1, 2021, Winshear closed a private placement unit financing at \$0.10 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant is exercisable into one common share of Winshear at a price of \$0.20 per share for a period of 36 months until December 1, 2024. Palamina purchased 1,092,000 units of the private placement for \$109,200 and received 1,092,000 common shares of Winshear and 546,000 warrants.

On August 19, 2022, Winshear closed a private placement unit financing at \$0.06 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant is exercisable into one common share of Winshear at a price of \$0.10 per share for a period of 24 months until August 19, 2024. Palamina purchased 1,550,000 units of the private placement for \$93,000 and received 1,550,000 common shares of Winshear and 775,000 warrants.

Due to these shareholdings and the two directors the Palamina 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.

As at December 31, 2022, Palamina held 13,422,000 common shares or 18.53% (December 31, 2021 – 11,872,000 common shares or 19.28%) of Winshear. Fair value of one Winshear common share as at December 31, 2022 was \$0.055 (December 31, 2021 - \$0.08) which is based on the trading price of the shares.

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19. INVESTMENT IN ASSOCIATE (Continued)

Changes in the investment in associate for the years ended December 31, 2022 and 2021 were as follows:

	Shares	Amount
Balance – December 31, 2020	10,000,000	\$ 132,155
Shares received for settlement of advance royalty payment	389,213	31,137
Shares received for settlement of debt	135,787	10,863
Purchased privately	255,000	22,950
Purchased through private placement of units	1,092,000	109,200
Proportionate share of net loss	-	(201,240)
Balance – December 31, 2021	11,872,000	105,065
Purchased through private placement of units	1,550,000	93,000
Proportionate share of net loss	-	(186,951)
Balance – December 31, 2022	13,422,000	\$ 11,114

The following is a summary of the consolidated financial information for Winshear on a 100% basis as at December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Cash	\$ 262,837	\$ 565,994
Other current assets	99,988	152,183
Total assets	362,825	718,177
Total current liabilities	113,392	158,640
Equity	249,433	559,537
Total liabilities and equity	\$ 362,825	\$ 718,177

20. INCOME TAXES

a) Provision for Income Taxes

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate of 26.5% (2021 – 26.5%). A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the years ended December 31, 2022 and 2021 is as follows:

	For the years ended December 31,	
	2022	2021
Loss before income taxes	\$ (2,392,547)	\$ (3,064,101)
Expected income tax recovery based on statutory rate	\$ (634,000)	\$ (784,000)
Difference in foreign jurisdiction tax rates	(55,000)	(57,000)
Expenses not deductible for tax purposes and other	(57,000)	95,000
Benefit of losses and temporary differences not recognized	746,000	746,000
Deferred income tax provision (recovery)	\$ -	\$ -

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20. INCOME TAXES (Continued)

The Canadian statutory income tax rate of 26.5% (2021 - 26.5%) is comprised of the federal income tax rate at approximately 15.0% (2021 - 15.0%) and the provincial income tax rate of approximately 11.5% (2021 - 11.5%). The Mexican and Peruvian statutory income tax rates are approximately 30% (2021 - 30%).

b) Deferred Income Tax

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2022	December 31, 2021
Non-capital loss carry-forwards	\$ 9,307,000	\$ 9,163,000
Share issue costs	62,000	72,000
Total	\$ 9,369,000	\$ 9,235,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

c) Non-capital Losses Carried Forward

The Company has tax loss carryforward balances that have not been recognized in Canada of \$4,268,000 (2021 - \$3,416,000), in Mexico of \$399,000 (2021 - \$325,000) and in Peru of \$4,640,000 (2021 - \$5,425,000). No deferred tax asset has been recognized as it is not probable that they will be utilized. As at December 31, 2022, the non-capital losses recognized in Mexico expire in 2026-2031, the non-capital losses recognized in Peru expire in 2023-2027, and the non-capital loss carry forwards recognized in Canada expire as follows:

Year of Expiry	December 31, 2022	December 31, 2021
2035	\$ 314,000	\$ 313,000
2036	497,000	495,000
2037	449,000	448,000
2038	591,000	589,000
2039	308,000	308,000
2040	483,000	483,000
2041	871,000	780,000
2042	755,000	-
	\$ 4,268,000	\$ 3,416,000

21. SUBSEQUENT EVENTS

Stock Option Expiry

On April 6, 2023, stock options to purchase up to 400,000 common shares of the Company at an exercise price of \$0.39 per share, granted on April 6, 2018, expired unexercised.