PALAMINA CORP.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD AND YEAR ENDED DECEMBER 31, 2016

This Management Discussion and Analysis ("MD&A") reviews the financial condition and results of operations of Palamina Corp. ("Palamina" or the "Company") for the three month period and year ended December 31, 2016. The MD&A was prepared as of April 7, 2017 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015, including the notes thereto. All figures are in Canadian dollars unless stated otherwise. Additional information relevant to the Companies activities, including the Company's audited consolidated financial statements can be found on SEDAR at www.sedar.com.

All statements, other than of historical fact included herein, including without limitation, statements regarding potential mineralization, reserves and exploration results and future plans and objectives of the Company are forward looking statements and involve various risks and uncertainties, which are detailed in the Section "Risk Factors" of this MD&A. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.

TRANSFER OF ASSETS AND OVERVIEW

Palamina Corp. ("Palamina" or the "Company") is an exploration stage company focused on one operating segment being the exploration for economic mineral deposits in Mexico through its wholly owned subsidiary, Palamina S.A. de C.V. ("Palamina Mexico"). Subsequent to year end, Palamina incorporated a wholly owned subsidiary in Peru ("Palamina SAC") and acquired certain mining claim applications. Palamina was incorporated on April 23, 2015 under the *Business Corporations Act* (Ontario). The Company's head office is located at 10 King Street East, Suite 501, Toronto, Ontario, M5C 1C3.

On April 10, 2015, Soltoro Ltd. ("Soltoro") entered into an arrangement agreement (the "Agreement") with Agnico Eagle Mines Limited ("Agnico") pursuant to which Agnico would acquire, by way of court approved plan of arrangement (the "Arrangement"), all of the issued and outstanding common shares of Soltoro, including common shares that became outstanding after the date of the execution of the Agreement but before the effective time of the Arrangement upon the exercise of outstanding share options and warrants of Soltoro.

Pursuant to the Arrangement each Soltoro shareholder received in exchange for each of their existing common shares: (i) 0.00793 of a common share of Agnico, (ii) $0.01 in cash, and (iii) one common share of a Palamina. Palamina was capitalized with $1,943,101 in funding from Agnico representing $0.02 per issued and outstanding share of Palamina distributed to Soltoro shareholders under the Arrangement. Soltoro transferred to Palamina its entire interest in the assets and liabilities of the El Santuario, Gavilan, and Chinipas properties located in Mexico (the "Mexico Properties"). On June 4, 2015, Soltoro shareholders approved the Arrangement which was subsequently finalized on June 9, 2015. Soltoro shareholders received in aggregate 14,574,704 common shares of Palamina (97,155,037 pre-consolidation – see below).

On October 20, 2015 the Company effected a consolidation of its common shares on the basis of one (1) post - consolidation common share for every 6.666 pre - consolidation common shares outstanding. The consolidation was approved by the shareholders of the Company at the Company's special shareholders' meeting held on October 15, 2015. Upon completion of the consolidation, Palamina had 14,574,704 common shares issued and outstanding, reduced from 97,155,037 pre-consolidation common shares which were previously issued and outstanding.

Pursuant to the Arrangement, Palamina became a reporting issuer pursuant to the securities laws of Ontario, British Columbia, Alberta, and Saskatchewan. On November 10, 2015 the Company filed a listing application with the TSX Venture Exchange (the "Exchange") under its profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company also filed a technical report (the "Technical Report") prepared in accordance with National Instrument 43-101 for its Santuario project on SEDAR. The Technical Report dated September 1, 2015 has an effective date of June 12, 2015 and was independently prepared by A.C.A. Howe Limited. On November 13, 2015 the shares of the Company were approved for trading on the Exchange under the symbol PA.

BASIS OF PRESENTATION AND IMPACT OF THE ARRANGEMENT

Transactions occurring prior to the completion of the Arrangement on June 9, 2015 are derived from the accounting records of Soltoro and its subsidiary, Soltoro, S.A. de C.V. ("Soltoro Mexico"). The financial information from January 1, 2015 to June 9, 2015 is intended to be representative of the Mexico Properties had Palamina operated them as a stand-alone entity, subject to Soltoro's control, during this time.

The financial information related to transactions occurring prior to the completion of the Arrangement has been prepared by Palamina's management in accordance with IFRS and requires the use of significant judgments in allocating reported amounts related to the Mexico Properties. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly the consolidated statements of financial position, consolidated statements of loss and comprehensive loss, and the consolidated statements of cash flows in accordance with IFRS.

Management cautions readers of the consolidated financial statements that the results do not necessarily reflect what the financial position, results of operations, or cash flows would have been had Palamina been operating as a stand-alone entity, subject to Soltoro's control. Further, the allocation of expenses in the consolidated statements of loss and comprehensive loss for the period January 1, 2015 to June 9, 2015 does not necessarily reflect the nature and level of Palamina's future operating expenses.

Presentation of the Consolidated Statements of Financial Position

As Palamina was a wholly-owned subsidiary of Soltoro until the closing of the Arrangement, the transfer of assets and liabilities was recorded by the Company at the carrying amounts in Soltoro's consolidated statements of financial position at the time of the transfer.

Presentation of the Consolidated Statements of Loss and Comprehensive Loss

The consolidated statements of loss and comprehensive loss for the year ended December 31, 2015 reflect the amounts allocated from Soltoro from January 1, 2015 to June 9, 2015 (the "Soltoro Expenditures") and amounts recorded by Palamina subsequent to June 9, 2015 (the "Palamina Expenditures") with respect to the Mexico Properties.

The Soltoro Expenditures include all direct exploration and evaluation expenditures incurred by Soltoro on the Mexico Properties and a pro-rata allocation of Soltoro's non-exploration and evaluation expenditures incurred in each of the periods presented based on the percentage of exploration and evaluation expenditures incurred on the Mexico Properties compared to exploration evaluation expenditures incurred on all Soltoro properties. The allocation of non-exploration and evaluation expenditures during the period from January 1 to June 9, 2015 is 10.62%.

The Soltoro Expenditures and the Palamina Expenditures for the year ended December 31, 2015 are as follows.

	Soltoro Expenditures $	Palamina Expenditures $	Year ended December 31, 2015 $
Expenses			
Exploration and evaluation expenditures	80,875	137,389	**218,264**
Salaries and management fees	24,954	171,154	**196,108**
Professional fees	1,833	114,134	**115,967**
Share based payments	-	84,000	**84,000**
Investor relations and regulatory	7,145	53,414	**60,559**
Office and general	2,046	7,520	**9,566**
Rent	1,361	7,200	**8,561**
Foreign exchange loss	552	(1,287)	**(735)**
Total expenses	118,766	573,524	**692,290**
Other income			
Interest income	-	(7,974)	**(7,974)**
Net loss	118,766	565,550	**684,316**

Presentation of the Consolidated Statements of Changes in Equity
For reporting periods prior to the completion of the Arrangement, Palamina's investment in the Mexico Properties is presented as deficiency in net assets and includes the accumulated net loss and accumulated comprehensive loss of the Mexico Properties to June 9, 2015.

PROPERTY PORTFOLIO

Qualified Person
Mr. Steven T. Priesmeyer, C.P.G., Vice President of Exploration for Palamina Corp. and a qualified person as defined by NI 43-101 has reviewed the contents of the exploration overview section of this MD&A. Mr. Priesmeyer is not considered independent due to his position as an officer and shareholder of the Company. In addition to reviewing this report, Mr. Priesmeyer is responsible for management and supervision of the Palamina's exploration programs in Mexico and Peru.

Pursuant to the Arrangement, Palamina acquired a 100% interest in the El Santuario, Gavilán and Chinipas properties from Soltoro. On November 20, 2015, the Company filed a technical report (the "Technical Report") prepared in accordance with National Instrument 43-101 for its Santuario project on SEDAR. The Technical Report dated September 1, 2015 has an effective date of June 12, 2015 and was independently prepared by A.C.A. Howe Limited.

Peru Mining Clam Applications

On January 19, 2017, Palamina S.A.C. acquired certain mining claim applications within the Department of Puno in southeast Peru north of Lake Titicaca (the "Peru properties"). The mining claim applications were acquired to establish a presence in a highly prospective auriferous belt which measures approximately 175 kilometres by 75 kilometres. The gold belt is bordered by Bolivia to the east and the Madre de Dios region to the north, and contains numerous orogenic gold showings. Palamina has acquired the mining claim applications in five areas within the Puno belt (the Gaban, Cori, Coasa, Orco and Sandia project areas) and one area within the coastal I.O.C.G. belt of southern Peru (the Tinka project area). Palamina has established an office in Lima and is in the process of prioritizing the claim application areas. During the next six months Palamina plans to evaluate each area and to prioritize them based on their geological potential.

El Santuario Property

The El Santuario property is comprised of two mining concessions ("El Santuario" and "Sant") that are 100%-owned by Palamina Mexico. The concessions cover 3,200 hectares and are located in the Cardonal district in Hidalgo State in central Mexico. The property is host to numerous historic gold prospects as well as widespread weakly anomalous values of lead, zinc, silver and manganese in altered limestone. In 2012, geologic mapping and sampling was completed with a view to identifying drilling targets. A limited ground magnetics program was also completed along the contact between the sedimentary rocks and a rhyolite porphyry/flow dome complex. A total of 438 additional rock samples were collected and 98.4 line-kilometers of ground magnetics covering approximately 1,215 hectares were completed during the 2012 program.

Two primary target deposit types were identified as a result of the 2012 program: gold in fractures and quartz veinlets hosted by the rhyolite porphyry/flow dome complex and/or adjacent sedimentary rocks and lead-zinc-silver polymetallic replacement deposits hosted by Cretaceous carbonate rocks along the contact with the rhyolite porphyry. Gold mineralization consists of millimeter-scale quartz-iron oxide veining hosted by the rhyolite porphyry. Gold values in the San Clemente area range from below detection limit up to 10.3 grams per tonne ("g/t"). Higher gold values are concentrated in larger fractures, such as those exploited at historic mines, with lower grade values disseminated in the adjacent rhyolite.

The area containing known mineralization measures approximately 500 metres by 750 metres. A similar area of gold mineralization in rhyolite porphyry and presumed Jurassic sedimentary rocks between the villages of El Boxo and El Santuario returned gold values ranging from below detection limit to 2.4 g/t gold. Visible gold has been reported from panning during sampling conducted by the Mexican geological survey in both areas.

The potential for lead-zinc-silver polymetallic replacement mineralization is reflected by a large area of marblization in carbonate rocks accompanied by local concentrations of jasperoids and limonite, and sericitic and silicic alteration in the rhyolite porphyry. The area is characterized by weak but widespread areas of lead and zinc with sporadic weakly anomalous values of silver and manganese.

In the first quarter of 2016, Palamina completed a sampling program on the El Santuario Property. Eighty-one (81) rock samples were collected from the San Clemente gold target and the La Presa polymetallic replacement lead-zinc-silver target. Sampling of the San Clemente gold target was intended to better understand the structural controls of the gold mineralization. Twenty-two (22) samples were collected from several prominent structural trends. Sampling targeted well-defined structures of various orientations, as opposed to broader sample intervals which often contain more than one structure, with the objective of understanding which structural orientations are mineralized. All but one of the 22 samples contained detectible gold with 12 of the 22 containing greater than 0.50 grams per tonne gold and four samples containing more than 1.00 grams per tonne gold. This data is being compiled with historic data in order to assist with drill hole planning.

Sampling in the La Presa polymetallic replacement lead-zinc-silver area was intended to investigate a strong northwest-trending fault system along the contact between Cretaceous sedimentary rocks and the rhyolite porphyry. Fifty-nine (59) chip-channel samples were collected from this zone, which measures more than 100 metres in width. The best interval is anomalous in gold and arsenic averaging 0.029 grams per tonne gold (29 ppb gold) over 10 m sampled width, with a maximum value of 0.050 grams per tonne gold (50 ppb gold), and 2,323 ppm arsenic with a maximum of 4,060 ppm arsenic. No further work is planned for the La Presa area at this time.

Palamina is in the process of clarifying surface ownership in the Project area. Once this step is complete, Palamina can negotiate surface access and begin the permitting process for future work. In July of 2016 Palamina submitted applications to drop the SANT concession and reduce the size of the El Santuario concession. The resulting land position is expected to be reduced from 3,200 hectares to approximately 1,372 hectares.

Gavilán Property
On March 13, 2017 Palamina submitted an application to drop the Gavilán concession.

Chinipas Property
On March 13, 2017 Palamina submitted applications to drop the Chinipas and Chinipas 1 concessions.

Exploration and Evaluation Expenditures
The exploration and evaluation expenses incurred by Soltoro and by Palamina by property and by expenditure classification are summarized as follows:

Property	**Soltoro expenditures Jan 1 - June 9, 2015 $**	**Palamina expenditures June 10 - December 31, 2015 $**	**Year ended December 31, 2015 $**	**Palamina Expenditures Year Ended December 31, 2016 $**
El Santuario Property	57,791	131,930	189,721	**243,127**
Peru Properties	-	-	-	**171,262**
Gavilan Property	19,706	4,945	24,651	**15,893**
Chinipas Property	3,378	514	3,892	**2,746**
Other Property Investigation	-	-	-	**29,278**
	80,875	137,389	218,264	**462,306**

Expenditure Classification	**Soltoro expenditures Jan 1 - June 9, 2015 $**	**Palamina expenditures June 10 - December 31, 2015 $**	**Year ended December 31, 2015 $**	**Palamina Expenditures Year Ended December 31, 2016 $**
Consulting	16,942	111,658	128,600	**208,487**
Regional exploration	10,891	-	10,891	**25,777**
Acquisition costs	-	-	-	**171,262**
Mining concession taxes	50,512	21,951	72,463	**57,780**
Other	2,530	3,780	6,310	-
	80,875	137,389	218,264	**462,306**

OVERALL PERFORMANCE

Results of Operations – Soltoro from January 1, 2015 to June 9, 2015 and Palamina from June 10 to December 31, 2015 and Palamina from January 1, 2016 to December 31, 2016

	Three Months Ended December 31, 2016 $	**Three Months Ended December 31, 2015 $**	**Year Ended December 31, 2016 $**	**Year Ended December 31, 2015 $**
Exploration and evaluation expenditures	**236,123**	59,474	**462,306**	218,264
Administrative expenses	**143,824**	171,947	**538,388**	390,026
Share-based payments	**20,000**	12,000	**20,000**	84,000
Interest income	**(1,219)**	(3,296)	**(7,240)**	(7,974)
Net loss	**398,728**	240,125	**1,013,454**	684,316
Loss per common share – basic and diluted	**0.02**	0.02	**0.06**	0.05

Net loss for the three months ended December 31, 2016 was $398,728 as compared to a net loss of $240,125 for the three month period ended December 31, 2015. The $158,603 increase in the net loss is primarily attributable to the following:

- Increase of $176,649 in exploration and evaluation expenditures for the three months ending December 31, 2016 compared to the same period in 2015 which is primarily due to the acquisition of mining claim applications in Peru of $171,262.
- Decrease of $28,123 in administrative expenses for the three months ending December 31, 2016 compared to the same period in 2015 which is the result of expenditures incurred in 2015 relating to the listing of the Company’s shares on the TSXV.

Net loss for the year ended December 31, 2016 was $1,013,454 as compared to a net loss of $684,316 for the year ended December 31, 2015. The $329,138 increase in the net loss is primarily attributable to the following:

- Increase of $148,362 in administrative expenses relates to the 100% absorption by Palamina of administrative expenses compared to 10.62% pro-rata allocation of Soltoro administrative expenses during the period January 1, 2015 to June 9, 2015, an increase of $55,500 for board of director fees, and a decrease in professional fees relating to the listing of the Company's shares on the TSXV.
- Decrease of $64,000 in share based payments for the year ending December 31, 2016 compared to the same period in 2015 relating to 150,000 options issued during the year ended December 31, 2016 compared to 825,000 options issued in the prior period.

Summary of Quarterly Results

Statement of Loss	Dec 31 2016 $	Sep 30 2016 $	Jun 30 2016 $	Mar 31 2016 $
Exploration and evaluation expenditures	236,123	80,460	55,032	90,691
Administrative expenses	143,824	143,905	124,986	125,673
Share-based payments	20,000	-	-	-
Interest income	(1,219)	(2,589)	(847)	(2,585)
Net loss	398,728	221,776	179,171	213,779
Loss per common share – basic and diluted	0.02	0.01	0.01	0.01

Statement of Loss	Dec 31 2015 $	Sep 30 2015 $	Jun 30 2015 $	Mar 31 2015 $
Exploration and evaluation expenditures	59,475	69,838	19,056	69,895
Administrative expenses	171,946	144,961	38,053	35,066
Share-based payments	12,000	72,000	-	-
Interest income	(3,296)	(4,678)	-	-
Net loss	240,125	282,121	57,109	104,961
Loss per common share – basic and diluted	0.02	0.03	0.00	0.00

- Over the past eight quarters exploration and evaluation expenditures ranged from a high of $236,123 in the fourth quarter of 2016 to a low of $19,056 in the second quarter of 2015. The fluctuations relate to the timing of the exploration programs conducted on the various properties by Soltoro, the 100% absorption by Palamina of exploration related overheads compared to the 10.62% pro-rata allocation of Soltoro exploration related overheads 2015, and the acquisition of mining claim applications in Peru of $171,262 during the fourth quarter of 2016.

- Administrative expenses ranged from a low of $35,066 in the first quarter of 2015 to a high of $171,947 in the fourth quarter of 2015. The fluctuations relate to the 100% absorption by Palamina of administrative expenses compared to the 10.62% pro-rata allocation of Soltoro administrative expenses in 2015 and an increase in professional fees in the fourth quarter of 2015 relating to the listing of the Company's shares on the TSXV.
- Share-based payment expense, which is a non-cash item, has ranged between a low of $nil to a high of $72,000 in the third quarter of 2015. The fluctuations result from the timing associated with the granting and vesting of stock options by Soltoro and Palamina and the recording of the associated share-based payment expense estimated pursuant to the Black-Scholes valuation model.

Financial Position

As at December 31, 2016 the Company had assets of $1,775,290 (December 31, 2015 - 1,593,548) and an equity position of $1,637,504 (December 31, 2015 - $1,460,727). Total assets as at December 31, 2016 consisted primarily of cash and cash equivalents of $1,749,921 (December 31, 2015 - $1,564,546), receivables of $12,669 (December 31, 2015 - $26,511) and prepaid expenses of $8,528 (December 31, 2015 - $2,491).

LIQUIDITY, CAPITAL RESOURCES

The Company is an early stage exploration company and, as is common with many exploration companies, it relies on financings to fund its exploration and acquisition activities. The Company's approach to managing liquidity and capital resources is to ensure that it will have sufficient liquidity to meet its liabilities when due. The Company had an excess of current assets over current liabilities of $1,633,332 at December 31, 2016 (December 31, 2015 - $1,460,727).

On August 8, 2016 the Company closed a non-brokered private placement offering (the "Offering") comprised of 8,000,000 common shares at a purchase price of $0.15 per share for aggregate gross proceeds of $1,200,000. No warrants were issued as part of the Offering.

The Company does not have any long term debt or credit facilities with financial institutions. At this time the Company is not anticipating an operating profit from operations and will rely on the $1,633,332 in working capital and future financings to fund its growth. There is no assurance that future financings will be available when required.

The consolidated financial statements of the Company do not include any adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classification 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 consolidated financial statements. These adjustments could be material.

SUBSEQUENT EVENTS

On January 19, 2017, Palamina S.A.C. acquired certain mining claim applications within the Department of Puno in southeast Peru north of Lake Titicaca (the "Peru properties"). The mining claim applications were acquired to establish a presence in a highly prospective auriferous belt which measures approximately 175 kilometres by 75 kilometres. The gold belt is bordered by Bolivia to the east and the Madre de Dios region to the north, and contains numerous orogenic gold showings. Palamina has acquired the mining claim applications in five areas within the Puno belt (the Gaban, Cori, Coasa, Orco and Sandia project areas) and one area within the coastal I.O.C.G. belt of southern Peru (the Tinka project area).

On January 13, 2017, Palamina granted 910,000 incentive stock options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at $0.22 per common share. The options granted to officers and directors expire in 5 years and the options granted to consultants expire in 2 years.

COMMITMENTS AND CONTINGENCIES

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties. The minimum expenditures to keep the properties in good standing through December 31, 2017 are approximately $26,000.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

The Company has no off-statement of financial position arrangements.

RELATED PARTY TRANSACTIONS 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:

Year ended December 31,		2016		2015
Balances:				
Short-term employee benefits	$	436,000	$	219,000
Share based payments – options		20,000		84,000
Total compensation to key management	$	456,000	$	303,000

At December 31, 2016, included in trade and other payables is $57,837.54 (December 31, 2015 - $50,177) due to these key management personnel. These amounts are due on demand, unsecured and non-interest bearing.

DIVIDENDS

The Company has neither declared nor paid any dividends on its Common Shares. The Company intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

OUTSTANDING SHARE DATA

The following table sets forth information concerning the outstanding securities of the Company as at April 7, 2017:

Share Capital

	Number of Shares
Balance – December 31, 2014	**-**
Issuance pursuant to the Arrangement (i), (ii)	14,574,704
Balance – December 31, 2015	**14,574,704**
Issued pursuant to Private Placement (iii)	8,000,000
Balance – December 31, 2016 and April 7, 2017	**22,574,704**

(i) Pursuant to the Arrangement each Soltoro shareholder received one common share of Palamina in exchange for each of their existing Soltoro common shares.

(ii) On October 20, 2015 the Company effected a consolidation of its common shares on the basis of one (1) post - consolidation common share for every 6.666 pre - consolidation common shares outstanding. The consolidation was approved by the shareholders of the Company at the Company's special shareholders' meeting held on October 15, 2015. Upon completion of the consolidation, Palamina had 14,574,704 common shares issued and outstanding, reduced from 97,155,037 pre-consolidation common shares which were previously issued and outstanding.

(iii) On August 8, 2016 the Company closed a non-brokered private placement offering comprised of 8,000,000 common shares at a purchase price of $0.15 per share for aggregate gross proceeds of $1,200,000. Certain officers and directors of the company subscribed to an aggregate of 878,167 common shares, for gross proceeds of $131,725.

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.

On October 15, 2015 the Plan was approved by the shareholders of the Company at the Company's special shareholders' meeting.

As at December 31, 2016, the Company had 982,470 (December 31, 2015 – 332,470) options available for issuance under the Plan.

The continuity of outstanding stock options for the years ended December 31, 2016 and 2015 is as follows:

	Number of stock options	Weighted average exercise price per share $
Balance – December 31, 2014	-	-
Granted (i) and (ii)	1,125,000	0.11
Balance – December 31, 2015	**1,125,000**	**0.11**
Granted (iii)	150,000	0.16
Balance – December 31, 2016	**1,275,000**	**0.12**

(i) On September 15, 2015 the Company granted 825,000 options under the Plan with an exercise price of $0.13 and an expiry date of September 15, 2020. The resulting fair value of $72,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 83%; a risk-free interest rate of 0.84% and an expected average life of 5 years. The grant date share value was determined to be $0.13 based on capitalization value as disclosed in note 1 to the consolidated financial statements. The options vest immediately.

(ii) On December 1, 2015 the Company granted 300,000 options under the Plan with an exercise price of $0.06 and an expiry date of December 1, 2020. The resulting fair value of $12,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 83%; a risk-free interest rate of 0.86% and an expected average life of 5 years. The options vested immediately.

(iii) On November 15, 2016 the Company granted 150,000 options under the Plan with an exercise price of $0.16 and an expiry date of November 15, 2021. The resulting fair value of $20,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 117%; a risk-free interest rate of 0.96% and an expected average life of 5 years. The options vested immediately.

See note 11 and 12 to the consolidated financial statements for the years ended December 31, 2016 and 2015 for more detailed disclosure of outstanding shares, warrants and options.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's 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 calculation of share based payments and warrants, determination of functional currency, and the recoverability of value-added taxes receivable. 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.

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 and Mexico, and sources of equity financing.

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.

ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Adoption of New Standards
The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

- In December 2014, the IASB issued amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") to improve the effectiveness of presentation and disclosure in financial reports with the objective of reducing immaterial note disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The adoption of the standard has not had an impact on the Company's financial statements.

New standards and interpretations to be adopted in future
At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted and are relevant to the Company. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- IFRS 9 'Financial *Instruments: Classification and Measurement'* – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company has not yet determined the impact of the amendments on the Company's financial statements.

- IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognized in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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 December 31, 2016 totaled $1,637,504 (December 31, 2015 - $1,460,727).

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 year ended December 31, 2016. The Company is not subject to any capital requirements.

The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2016 and 2015.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

FAIR VALUE AND FINANCIAL RISK FACTORS

Fair value of financial instruments

The Company has designated its cash equivalents as FVTPL which are measured at fair value. Fair value of cash equivalents is determined based on transaction value and is categorized as a Level two measurement. Cash is classified for accounting purposes as loans and receivables, which are measured at amortized cost. Trade and other payables are classified for accounting purposes as other financial liabilities, which are measured at amortized cost.

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

December 31, 2016	**Level One**	**Level Two**	**Level Three**
	$	**$**	**$**
Cash and cash equivalents	-	1,603,284	-
Trade and other payables	-	137,786	-

December 31, 2015	**Level One**	**Level Two**	**Level Three**
	$	**$**	**$**
Cash equivalents	-	1,507,161	-
Trade and other payables	-	132,821	-

As at December 31, 2016 and 2015, 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 December 31, 2016 is the carrying value of cash and cash equivalents.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had current assets of $1,771,118 (December 31, 2015 - $1,593,548) including cash and cash equivalents of $1,749,921 (December 31, 2015 - $1,564,546) to settle current liabilities of $137,786 (December 31, 2015 - $132,821) resulting in working capital of $1,633,332 (December 31, 2015 - $1,460,727 working capital).

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 December 31, 2016, the Company had cash and cash equivalents of $1,749,921 (December 31, 2015 - $1,564,546).

Foreign currency risk

The Company's exploration activities are conducted in Mexico and Peru. Major purchases and exploration expenditures are transacted in Mexican pesos, 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 Mexican pesos, 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, silver, and copper 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 subsidiary holds financial assets and liabilities in US dollars and Mexican pesos 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 year ended December 31, 2016 would have been approximately $500 higher/lower. If the Mexican peso 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, 2016 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 December 31, 2016, the Company is not a producer of valuable 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.

OTHER RISK FACTORS

There are a number of risks and uncertainties that may have a material and adverse impact on the future operating and financial performance of Palamina and could cause Palamina's proposed plans, prospects, strategies, events, operating and financial performance and results to differ materially from the estimates described in forward-looking statements and forward-looking information in this MD&A related to Palamina. These include widespread risks associated with any form of business and specific risks associated with Palamina's business and its involvement in the early-stage exploration and development industry. An investment in Palamina Shares, as well as Palamina's prospects, is highly speculative due to the high-risk nature of its business and the early stage of its exploration and development activities, as well as due to the limited assets and cash resources of Palamina. Shareholders of Palamina may lose their entire investment. The risks described below are not the only ones facing Palamina. Additional risks not currently known to Palamina, or that Palamina currently deems immaterial, may also impair Palamina's proposed plans, prospects, strategies, events, business, operations, financial performance and results. If any of the following risks actually occur, Palamina's plans, strategies, events, business, financial performance and condition, results and prospects could be adversely affected.

Exploration, Development and Operating Risks

Mining operations generally involve a high degree of risk. Palamina's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold, precious metals and other minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. The financing, exploration, development and mining of any of Palamina's exploration properties is furthermore subject to a number of macroeconomic, legal and social factors, including the price of gold, silver and copper, laws and regulations, political conditions, currency fluctuations, the ability to hire and retain qualified people, the inability to obtain suitable adequate machinery, equipment or labour and obtaining necessary services in jurisdictions in which Palamina operates. Unfavourable changes to these and other factors have the potential to negatively affect Palamina's business, plans, prospects, strategies, financial performance and condition and results.

The exploration for and development of mineral deposits is a speculative venture involving significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate or even mitigate. While the discovery of a commercially viable ore body may result in an increase in value for shareholders, few mineral properties which are explored are ultimately developed into producing mines. At present, none of the Company's properties have a known body of bankable commercial ore and the proposed exploration programs are exploratory. There is no certainty that the expenditures made by Palamina towards the exploration and evaluation of mineral deposits on its properties will result in discoveries or production of commercial quantities of gold or other minerals.

Substantial expenditures may be required to locate, evaluate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site, and substantial additional financing will be required. It is impossible to ensure that Palamina will be able to secure the necessary financing needed to pursue the exploration or development activities planned by Palamina or that its activities will result in an economically viable or profitable commercial mining operation. The decision as to whether a particular property contains a commercial mineral deposit and should or could be brought into production will depend on the results of exploration programs and/or geological and other studies, and the recommendations of duly qualified engineers and geologists. Several significant factors will be considered, including, but not limited to: (i) the particular attributes of the deposit, such as size, grade, metallurgical characteristics, and proximity to infrastructure; (ii) mineral prices, which are highly cyclical; (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, permitting, importing and exporting of minerals and environmental protection; (iv) available working capital and ongoing costs of exploration and development; (v) availability, terms and cost of additional funding; and (vi) local community and landowner opposition to access mineral rights. The exact effect of these factors cannot be accurately predicted, but one or any combination of these factors may result in Palamina not being able to pursue its business plans or strategy or its shareholders not receiving an adequate return on invested capital.

Early Stage Status and Nature of Exploration

The terms “Resource(s)” or “Reserve(s)” cannot be used to describe any of the Palamina’s exploration properties due to the early stage of exploration at this time. Any reference to potential quantities and/or grade is conceptual in nature, as there has been insufficient exploration to define any mineral resource and it is uncertain if further exploration will result in the determination of any mineral resource. Any information, including quantities and/or grade, described in this MD&A should not be interpreted as assurances of a potential resource or reserve, or of potential future mine life or of the viability or profitability of future operations.

Few properties that are explored are ultimately developed into producing mines. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining.

The economics of exploring and developing mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current planned exploration and development programs of Palamina will result in economically viable or profitable commercial mining operations. The profitability of Palamina’s operations will be, in part, directly related to the costs and success of its exploration and development programs, which may be affected by a number of factors. Substantial expenditures are required to establish mineral reserves that are sufficient to support commercial mining operations and to construct, complete and install mining and processing facilities on those properties that are actually developed.

No assurance can be given that any particular level of recovery of minerals will be realized or that any potential quantities and/or grade will ever qualify as a resource, or that any such mineral resource will ever qualify as a commercially viable (or mineable) deposit which can be legally and economically exploited. Where expenditures on a property have not led to the discovery of mineral reserves, incurred expenditures will generally not be recoverable.

Additional Capital

Palamina plans to focus on evaluating its properties and exploring for minerals and will use its working capital to carry out such activities. However, the exploration and development of Palamina's exploration properties is expected to require substantial additional financing. The ability of Palamina to arrange such additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business and performance of Palamina. Failure to obtain additional financing could result in delaying or indefinite postponement of exploration, development or production on any or all of Palamina's exploration properties or a loss of a property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to Palamina. If additional financing is raised by Palamina through the issuance of securities from treasury, control of Palamina may change and security holders may suffer potentially significant dilution.

Joint Ventures and Subsidiaries

Palamina may, in the future, operate some of its activities and properties through joint ventures, subsidiaries, options, earn-ins or similar arrangements in order to fully exploit the exploration and production potential of its exploration assets. There can be no assurance that Palamina will be able to identify and successfully negotiate joint venture or similar arrangements with third parties on terms that are favourable to Palamina, or at all. Palamina may, in the future, be unable to meet its share of costs incurred under such arrangements and may have its property interests subject to such arrangements reduced as a result or even face termination of such arrangements.

Palamina is also subject to the typical risks associated with joint ventures and similar arrangements, including disagreement on how to develop, operate or finance the properties and activities and contractual and legal remedies of Palamina's partners in the event of such disagreements. In addition, any limitation on the transfer of cash or other assets between Palamina and such entities, or among such entities, could restrict Palamina's ability to fund its activities efficiently. Any such limitations or the perception that such limitations may exist now or in the future, could have an adverse impact on Palamina's business, plans, prospects, value and stock price.

No History of Operations

Palamina is an early-stage exploration and development company and has no history of mining or refining mineral products. As such, Palamina is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that Palamina will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

No History of Earnings
Palamina has not yet commenced operations and therefore has no history of earnings or of a return on investment, and there is no assurance that certain of its property interests or other assets will be economically viable or will be advanced to generate earnings, operate profitably or provide a return on investment in the future. No operating revenues are anticipated until one of Palamina's projects comes into production, which may or may not occur. Palamina will continue to experience losses unless and until it can successfully develop and begin profitable commercial production at one of its mining properties. There can be no assurance that Palamina will be able to do so.

No History of Profitability
Palamina is an early exploration and development stage company with no history of revenues or profitability. There can be no assurance that the activities of Palamina will be economically viable or profitable in the future. Palamina will require additional financing to further explore, develop, acquire, and achieve commercial production on its property interests and, if financing is unavailable for any reason, Palamina may become unable to acquire and retain its property interests and carry out its business plan.

Market Price and Trading of Palamina's Shares
Securities of micro-cap and small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. The price of the Palamina Shares is also likely to be significantly affected by its financial condition and results.

As a result of any of these factors, the market price of the Palamina Shares at any given point in time may not accurately reflect Palamina's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. Palamina may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Industry and Economic Factors Affecting Palamina
Palamina is a junior resource company focused primarily on the evaluation, exploration and development of mineral properties and potential acquisition of mineral properties in the future. Palamina's future performance is largely tied to the financial markets related to junior resource companies, which is often cyclical. Palamina will continuously monitor several economic factors including the uncertainty regarding the price of gold, silver and copper and the availability of equity financing for the purposes of mineral exploration and development. Palamina's future performance is largely tied to its ability to raise additional financing needed to fund its ongoing exploration and operating activities and to pursue the exploration and the development of its mineral property interests and the overall financial markets. Financial markets in the mining sector are likely to continue to be volatile reflecting ongoing concerns about the global economy, and the general pessimistic outlook in the mining sector. Companies worldwide have been affected negatively by these trends. As a result, Palamina may have difficulties raising equity financing needed for the purposes of mineral exploration and development, particularly without excessively diluting the interests of its current shareholders. With continued market volatility expected, Palamina's current strategy is to continue a modest exploration program on its properties using existing cash and funds generated through equity financings if and when available and to seek out other prospective business opportunities, including entering into option arrangements and/or joint ventures. Palamina believes that this focused strategy will enable it to pursue its business strategy and plans in the near term. These trends may limit Palamina's ability to develop and/or further explore its properties,

and/or acquire other property interests that could be acquired in the future. Management will monitor economic conditions and estimate their impact on Palamina's plans, strategies and activities and incorporate these estimates in short-term operating and longer-term strategic decisions.

Reliance on a Limited Number of Properties
The only property interests of Palamina are its interests in the Mexico Properties and the Peru Properties. As a result, unless Palamina acquires additional property interests, any adverse developments affecting any one of these properties would likely have an adverse effect upon Palamina and would adversely affect the potential mineral resource development, profitability, financial performance and condition and results of Palamina and its strategies and plans. Except for the El Santuario property, none of the Mexico Properties or Peru Properties is currently a material property for purposes of NI 43-101. While Palamina may seek to acquire additional mineral properties that are consistent with its business objectives, there can be no assurance that Palamina will be able to identify suitable additional mineral properties or, if it does identify suitable properties, that it will have sufficient financial resources to acquire such properties or that such properties will be available on terms acceptable to Palamina or at all.

Commodity Prices
The price of Palamina's securities, its financial condition and results, and its access to the capital required to finance its exploration activities may in the future be adversely affected by declines in the price of precious and base metals and, in particular, the price of gold and silver. Base and precious metal prices fluctuate widely and are affected by numerous factors beyond Palamina's control such as the sale or purchase of base and precious metals by various dealers, central banks and financial institutions, interest rates, exchange rates, inflation or deflation, currency exchange fluctuation, global and regional supply and demand, production and consumption patterns, speculative activities, increased production due to improved mining and production methods, government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, environmental protection, and international political and economic trends, conditions and events. If these or other factors continue to adversely affect the price of base and precious metals, the market price of Palamina's securities may decline. A severe decline in the price of a mineral being explored or produced or expected to be explored or produced by Palamina would have a material adverse effect on Palamina, and could result in the suspension of exploration or development of properties by Palamina.

Indemnified Liability Risk
Pursuant to the Arrangement, Palamina has covenanted and agreed that it will assume all of the obligations and liabilities with respect to the assets transferred from Soltoro to Palamina. Because of Palamina's limited financial resources, any requirement to indemnify under these provisions could have a material adverse effect on the ability of Palamina to carry out its business plan and on its business, plans, prospects, financial condition and results.

Insurance and Uninsured Risks
Palamina's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment, natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties, personal injury or death, environmental damage to Palamina's exploration properties or the properties of others, delays in the ability to undertake exploration, monetary losses and possible legal liability.

Palamina does not currently maintain insurance in respect of suck risks. Although Palamina may in the future maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, such insurance even if obtained will not cover all the potential risks associated with a mining company's operations. Palamina may also be unable to obtain and maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration, development and production is not generally available to Palamina or to other companies in the resource industry on acceptable terms. Palamina might also become subject to liability for pollution or other hazards which it may not be insured against or which Palamina may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Palamina to incur significant costs that could have a material adverse effect upon its business, plans, prospects, financial performance and condition and results. The payment of such liabilities could reduce or eliminate Palamina's available funds or could exceed the funds available to Palamina to pay such liabilities and result in bankruptcy.

Environmental Risks and Hazards

The mining and mineral processing industries are subject to extensive environmental regulation for the protection of the environment. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. These regulations may adversely affect Palamina or require it to expend significant funds. There is also a risk that environmental and other laws and regulations may become more onerous, making it more costly for Palamina to remain in compliance with such laws and regulations.

There is no assurance that future changes in environmental regulation, if any, will not adversely affect Palamina's operations. Environmental hazards may exist on the properties on which Palamina holds interests which are unknown to Palamina at present and which have been caused by previous or existing owners or operators of the properties or by current or previous surface rights owners.

Palamina cannot give any assurances that breaches of environmental laws (whether inadvertent or not) or environmental pollution will not materially and adversely affect its business, plans and financial condition. There is no assurance that any future changes to environmental regulation, if any, will not adversely affect Palamina.

Permitting

Palamina's current and anticipated future activities will require approvals and permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, exploration, development, mining, production, taxes, labour standards, health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There is no assurance that delays will not occur in connection with obtaining all such necessary approvals and permits for the existing activities or additional approvals or permits for any possible future changes to operations. Prior to any development on any of its properties, Palamina must receive permits from appropriate governmental authorities. There can be no assurance that Palamina will obtain or continue to hold all permits necessary to develop or continue its activities at any particular property. Delays in obtaining or a failure to obtain any licenses or permits or extensions thereto, challenges to the issuance of such licenses or permits, whether successful or unsuccessful, changes to the terms of such licenses or permits or a failure to comply with the terms of any such licenses or permits that Palamina has obtained, could have a material adverse effect on Palamina by delaying or preventing or making more expensive exploration and/or development.

Title to Mining Concessions
The acquisition of the right to explore and/or exploit mineral properties is a detailed and time-consuming process. Although Palamina has either obtained title opinions or reviewed title for its properties, there is no guarantee that title to such property interests will not be challenged or impugned. Palamina's mineral properties may be subject to prior registered or unregistered liens, agreements, transfers or claims, and title may be affected by, among other things, undetected defects and land claims. A successful challenge to the validity of, or the precise area and location of, these claims could result in Palamina being unable to operate on its properties as permitted or being unable to enforce its rights with respect to its properties.

Further, in order to maintain the mining concessions, Palamina must incur certain minimum exploration expenditures annually or risk forfeiture of the mining concessions and any such expenditure made to such time. In light of Palamina's cash resources anticipated following the completion of the Arrangement, and in the absence of Palamina obtaining additional sources of funding, it is possible that Palamina may not be able to continue to commit the required minimum exploration expenditures required for its properties beyond the near-term.

Infrastructure
Development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, and government or other interference in the maintenance or provision of such infrastructure could adversely affect Palamina's business, plans, prospects, financial condition and results.

Competition
The resource and mining exploration industry is intensely competitive in all of its phases. As a result of this competition, some of which is with significantly larger, established mining companies with substantial capabilities and greater financial and technical resources than Palamina, Palamina may be unable to continue to explore and develop its existing properties, or to acquire additional mineral properties in the future. Palamina may also encounter increasing competition from other resource and mining companies, many of which are significantly larger with significantly greater resources, in its efforts to hire experienced mining professionals.

Palamina and its directors and officers are restricted from competing with the business of Soltoro and from acquiring property or similar interests in a restricted area and period under agreements entered into pursuant to the Arrangement, which may in turn adversely impact its ability, even if the necessary funds are available, from acquiring properties or interests in Mexico.

Government Regulation
The mineral exploration activities (as well as the potential for eventual mining, processing and development activities) of Palamina will be subject to extensive laws and regulations governing prospecting, exploration, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, waste disposal, water use, land claims of local people, protection of historic and archaeological sites, mine development, protection of endangered and protected species and other matters.

Government approvals, approval of the local population and permits are currently, and may in the future be required in connection with Palamina's proposed activities. To the extent such approvals are required and not obtained, Palamina may be curtailed or prohibited from continuing its exploration or development activities or from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing activities to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in the exploration or development of mineral properties or mining operations may be required to compensate those suffering loss or damage by reason of their activities and may have civil or criminal fines or penalties imposed for violations of applicable laws. Regulators in Mexico and Peru have broad authority to shut down and/or levy fines against facilities that do not comply with regulations or standards.

Palamina's mineral exploration and development activities may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that increase royalties payable or the costs related to Palamina's activities or maintaining its properties. Operations may also be affected in varying degrees by government regulations with respect to restrictions on exploration, development, production, price controls, government imposed royalties, claim fees, export controls, income taxes, and expropriation of property, environmental legislation and mine safety. The effect of these factors cannot be accurately predicted. Although Palamina's exploration and development activities are expected to be carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration or development.

Furthermore, any shift in political attitudes, or amendments to current laws and regulations governing activities of exploration, development, mining or milling or more stringent implementation thereof are beyond the control of Palamina and could have a substantial adverse impact on Palamina.

Foreign Operations

All of the Palamina's exploration properties are located in Mexico and Peru, and are subject to those jurisdiction's laws. As such, Palamina's activities will be and may increasingly be exposed to various levels of political, economic and other risks and uncertainties. Palamina believes the present attitude of Mexico and Peru to foreign investment and resource exploration to be favourable, but investors should assess the political risks of investing in a foreign country. These risks and uncertainties vary from country to country and include, but are not limited to: terrorism; hostage taking; military repression; fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; and changing political conditions and governmental regulations, including changing environmental legislation.

Mexico and Peru are working to develop greater political and economic stability. However, Mexico and Peru continue to experience heightened levels of political and economic instability due to regional geopolitical instability. These conditions may be exacerbated by current global economic conditions. This instability may cause changes to existing governmental regulations affecting mineral exploration and mining activities, and exposes Palamina to various risks associated with emerging markets, and/or may have a material adverse effect on Palamina's plans, properties, business, financial condition and results. While Palamina intends to implement various controls relative to its operations, including controls ensuring compliance with the *Corruption of Foreign Public Officials Act*, there is no assurance that such controls will eliminate such risks. These controls in conjunction with future periodic site visits are anticipated to provide management with the necessary internal controls relative to the operations in Mexico and Peru. Palamina will also monitor the business and regulatory environment of Mexico and Peru in order to minimize the potential impact on costs and operations.

Variations from the current regulatory, economic and political climate could have an adverse effect on the affairs of Palamina. Changes, if any, in resource exploration or investment policies or shifts in political attitudes in Mexico and/or Peru may adversely affect its activities or viability. Activities may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on operations, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the plans, properties, business, financial condition or results of Palamina.

In addition, in the event of a dispute arising from foreign operations, Palamina may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. It is not possible for Palamina to accurately predict such developments or changes in laws or the extent to which any such developments or changes may have a material adverse effect on Palamina's business.

Influence of Third Party Stakeholders

Some of the lands in which Palamina holds an interest, or the exploration equipment and roads or other means of access which Palamina intends to utilize in carrying out its work programs or general business activities, may be subject to interests or claims by third party individuals, groups or companies. In the event that such third parties assert any claims or do not consent to Palamina carrying on activities on lands subject to their interests or claims, Palamina's work programs may be delayed or prevented, even if such claims are not meritorious. Such claims or delays may result in significant financial loss and loss of opportunity for Palamina**.**

Palamina may need to enter into negotiations with landowners and other groups in local communities in Mexico and/or Peru in order to conduct further exploration and development work on its properties. There is no assurance that future discussions and negotiations will result in agreements with landowners and other local community groups in Mexico and/or Peru or if such agreements will be on terms acceptable to Palamina so that Palamina may continue to conduct exploration and development activities on these properties.

Share Price Fluctuations

In recent years, securities markets have experienced a high level of price and volume volatility. The securities of many companies, particularly those considered exploration-stage companies such as Palamina, have experienced wide fluctuations in market prices which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that the price of the Palamina Shares will be unaffected by any such volatility. The market price of the shares of mineral resource companies is also significantly affected by short-term changes in commodity prices, precious and base metal prices or other mineral prices.

Acquisitions and Integration

From time to time, Palamina may examine opportunities to acquire additional exploration and/or mining assets and businesses. Any acquisition that Palamina may choose to complete may be of a significant size relative to the size of Palamina, may change the nature or scale of Palamina's business and activities, and may expose Palamina to new geographic, political, operating, financial and geological risks. Palamina's success in its acquisition activities, if any, depends upon its ability to obtain additional sources of financing, identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate any acquired operations successfully with those of Palamina. Any acquisitions would be accompanied by risks. In the event that Palamina chooses to raise debt capital to finance any such acquisitions, Palamina's leverage will be increased. If Palamina chooses to use equity as consideration for such acquisitions, existing shareholders may suffer significant dilution. There can be no assurance that Palamina would be successful in obtaining additional sources of financing or in overcoming these risks or any other problems encountered in connection with such acquisitions.

Management of Growth

Palamina may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Palamina to manage growth effectively will require it to continue to implement and improve its operations and financial systems and to expand, train and manage its employee base. The inability of Palamina to deal with this growth could have a material adverse impact on its business, plans, operations and prospects.

Dilution

Financing the development of a mineral property through to production, should feasibility studies show it is recommended, would be expensive and Palamina would require additional monies to fund development and exploration programs and potential acquisitions. Palamina cannot predict the size of future issuances of Palamina Common Shares or the issuance of debt instruments or other securities convertible into Palamina Common Shares. Likewise, Palamina cannot predict the effect, if any, that future issuances and sales of Palamina's securities will have on the market and market price of the Palamina Shares. If Palamina raises additional funds by issuing additional equity securities, such financing may substantially dilute the interests of existing shareholders. Sales of substantial numbers of Palamina securities, or the availability of such Palamina securities for sale, could adversely affect the market, liquidity and any prevailing market prices for Palamina's securities.

Dividend Policy

No dividends on the Palamina Common Shares have been paid by Palamina to date. Payment of any future dividends will be at the discretion of Palamina's board of directors after taking into account many factors, including Palamina's operating results, financial condition and current and anticipated cash needs. At this time, Palamina has no source of cash flow and anticipates using all available cash resources towards its stated business objectives and retaining all earnings, if any, to finance its business activities.

Key Personnel

Palamina's development will be dependent on the efforts of key management and potentially other key personnel. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. The loss of any of these people, particularly to competitors, could have a material adverse effect on Palamina's business. Further, with respect to the future development of Palamina's exploration properties, it may become necessary to attract both international and local personnel for such development. The marketplace for key skilled personnel is highly competitive, which means the cost of hiring, training and retaining such personnel may increase. Factors outside Palamina's control, including competition for human capital and the high level of technical expertise and experience required to executive this development, will affect Palamina's ability to identify and retain the specific personnel required.

Due to the relatively small size of Palamina, the loss of key personnel or Palamina's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business, activities and future plans. Palamina does anticipate carrying any "key person" life insurance in respect of any of its directors, officers or other employees.

Risk of Litigation

Palamina may become involved in disputes with other parties in the future which may result in litigation or other legal proceedings. The results of legal proceedings cannot be predicted with certainty. If Palamina is unable to resolve these disputes favourably, it may have a material adverse impact on the ability of Palamina to carry out its business plan.

Internal Controls

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

Conflicts of Interest

Certain of the directors and officers of Palamina also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving Palamina will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of Palamina and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the OBCA and other applicable laws.

DISCLOSURE AND INTERNAL CONTROLS

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (Form 52-109FV2), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for the design and effectiveness of disclosure controls and procedures ("DC&P") and the design of international control over financial reporting ("ICFR") to provide reasonable assurance that material information related to the Corporation is made known to the Corporation's certifying officers. The Corporation's controls are based on the Committee of Sponsoring Organizations ("COSO") 2013 framework. The Corporation's CEO and the CFO have evaluated the design and effectiveness of the Corporation's DC&P as of December 31, 2016 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Corporation is made known to them by others within the Corporation. The CEO and CFO have also evaluated the design and effectiveness of the Corporation's ICFR as of December 31, 2016 and concluded that these controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

During the current period there have been no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Cautionary Note Regarding Forward-Looking Information

Except for statements of historical fact relating to Palamina, certain information contained in this MD&A constitutes “forward-looking information” under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company’s properties; the future price of precious and/or base metals; success of exploration activities; cost and timing of future exploration and development; requirements for additional capital and other statements relating to the financial and business prospects of the Company. Generally, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, ”would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during permitting; the possibility that future exploration results will not be consistent with the Company’s expectations; timing and availability of external financing on acceptable terms and in light of the current decline in global liquidity and credit availability; the uncertainty of conducting activities within a joint venture structure; currency exchange rates; government regulation of mining operations; failure of equipment or processes to operate as anticipated; risks inherent in mineral exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations; and uncertain political and economic environments. Although management of Palamina has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Management's Responsibility for Financial Information

The audited 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 audited 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 consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with 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 audited 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 audited 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 audited 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.

The Audit Committee has reviewed the audited consolidated financial statements with management. The Board of Directors has approved the audited consolidated financial statements on the recommendation of the Audit Committee.

April 7, 2017

(Signed) *"Andrew Thomson"*	(Signed) *"Brian Jennings"*
Andrew Thomson	Brian Jennings
President and Chief Executive Officer	Chief Financial Officer