

PALAMINA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

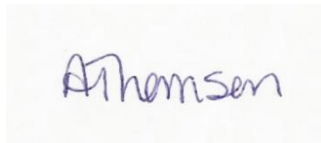
The accompanying consolidated financial statements of Palamina Corp. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards ("IFRS"). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal control that are designed by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The Board of Directors is responsible for reviewing and approving the 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 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 consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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



Andrew Thomson
President and Chief Executive Officer



Brian Jennings
Chief Financial Officer

Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of Palamina Corp.

Opinion

We have audited the consolidated financial statements of Palamina Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of during the year ended December 31, 2020 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
April 22, 2021

PALAMINA CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

<i>As at,</i>	December 31, 2020 \$	December 31, 2019 \$
ASSETS		
Current		
Cash and cash equivalents (Note 6)	61,713	34,656
Receivables (Note 7)	8,085	27,899
Prepaid expenses	1,500	20,148
Total current assets	71,298	82,703
Equipment (Note 8)	8,027	33,484
Investment in associate (Note 17)	132,155	480,000
Total assets	211,480	596,187
LIABILITIES AND EQUITY (DEFICIENCY)		
Current		
Trade and other payables (Notes 9 and 10)	425,140	553,170
Total liabilities	425,140	553,170
Equity (Deficiency)		
Share capital (Note 11)	6,480,018	5,657,366
Reserve for share-based payments (Note 12)	1,018,000	787,000
Reserve for warrants (Note 13)	1,684,775	1,416,775
Accumulated deficit	(9,385,170)	(7,793,830)
Reserve for foreign currency translation	(11,283)	(24,294)
Total equity (deficiency)	(213,660)	43,017
Total liabilities and equity (deficiency)	211,480	596,187

Nature of Operations and Going Concern Uncertainty (Note 1)
Commitments and Contingencies (Note 15)

On behalf of the Board of Directors on April 22, 2021:



Andrew Thomson
Director



Hugh Agro
Director

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

PALAMINA CORP.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	2020	2019
For the years ended December 31,	\$	\$
Expenses		
Exploration and evaluation expenditures (Note 14 and 10)	611,787	1,172,084
Share based payments (Note 12 and 10)	244,000	269,000
Salaries, director and management fees (Note 10)	211,716	297,382
Investor relations	102,462	198,255
Regulatory fees	29,100	23,874
Professional fees	39,999	61,754
Office and general	15,841	29,143
Rent	18,000	18,029
Foreign exchange loss	3,999	11,122
Total expenses	1,276,904	2,080,643
Other (income) expense		
Interest income	(489)	(2,701)
Gain on disposition of property (Note 17)	(32,920)	(527,000)
Loss from investment in associate (Note 17)	347,845	47,000
Net loss	1,591,340	1,597,942
Other comprehensive loss - items that will not subsequently reclassify into income		
Exchange on translation of foreign subsidiaries	(13,011)	5,658
Net comprehensive loss	1,578,329	1,603,600
Loss per share		
- basic	0.04	0.05
- diluted	0.04	0.05
Weighted average number of common shares outstanding		
- basic	41,680,809	35,259,639
- diluted	41,680,809	35,259,639

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

PALAMINA CORP.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Share Capital		Reserve for Share-based payments	Reserve for Warrants	Accumulated deficit	Reserve for foreign currency translation	Total
	Number of shares	Amount					
Balance at December 31, 2018	29,891,371	\$ 4,337,364	\$ 590,000	\$ 910,000	\$ (6,195,888)	\$ (18,636)	\$ (377,160)
Issued pursuant to private placement	5,625,665	1,687,600	-	-	-	-	1,687,600
Warrants issued pursuant to private placement	-	(522,000)	-	522,000	-	-	-
Share issue costs	-	(33,000)	-	(15,225)	-	-	(48,225)
Issued pursuant to exercise of stock options	786,600	115,402	-	-	-	-	115,402
Transfer of reserve on exercise of stock options	-	72,000	(72,000)	-	-	-	-
Share based payments	-	-	269,000	-	-	-	269,000
Net loss	-	-	-	-	(1,597,942)	-	(1,597,942)
Other comprehensive loss	-	-	-	-	-	(5,658)	(5,658)
Balance at December 31, 2019	36,303,636	\$ 5,657,366	\$ 787,000	\$ 1,416,775	\$ (7,793,830)	\$ (24,294)	\$ 43,017
Issued pursuant to private placement	8,800,000	1,100,000	-	-	-	-	1,100,000
Warrants issued pursuant to private placement	-	(264,000)	-	264,000	-	-	-
Share issue costs	31,200	(45,848)	-	4,000	-	-	(41,848)
Issued pursuant to exercise of stock options	150,000	19,500	-	-	-	-	19,500
Transfer of reserve on exercise of stock options	-	13,000	(13,000)	-	-	-	-
Share based payments	-	-	244,000	-	-	-	244,000
Net loss	-	-	-	-	(1,591,340)	-	(1,591,340)
Other comprehensive income	-	-	-	-	-	13,011	13,011
Balance at December 31, 2020	45,284,836	\$ 6,480,018	\$ 1,018,000	\$ 1,684,775	\$ (9,385,170)	\$ (11,283)	\$ (213,660)

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

PALAMINA CORP.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	2020	2019
For the years ended December 31,	\$	\$
Operating activities		
Net loss for the year	(1,591,340)	(1,597,942)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share based payments	244,000	269,000
Depreciation	9,190	13,370
Unrealized foreign exchange differences	12,513	(512)
Gain on disposal of vehicles	(26,616)	(1,826)
Gain on disposition of property	-	(527,000)
Loss from investment in associates	347,845	47,000
Change in non-cash working capital		
Receivables	19,814	(23,443)
Prepaid expenses	18,648	(5,561)
Trade and other payables	(128,030)	67,868
Cash (used in) operating activities	(1,093,976)	(1,759,046)
Investing activities		
Purchase of equipment	(1,174)	(1,149)
Proceeds from disposal of vehicle	44,555	-
Cash provided from (used in) investing activities	43,381	(1,149)
Financing activities		
Issuance of share capital and warrants	1,100,000	1,687,600
Proceeds from exercise of options	19,500	115,402
Share issuance costs	(41,848)	(48,225)
Cash provided from financing activities	1,077,652	1,754,777
Increase (decrease) in cash and cash equivalents	27,057	(5,418)
Cash and cash equivalents, beginning of year	34,656	40,074
Cash and cash equivalents, end of year	61,713	34,656

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

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

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

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

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

The Company is at an early stage of development and, as is common with many exploration companies, it relies on financings to fund its exploration and acquisition activities. The Company had a shortfall of current assets over current liabilities of \$353,842 at December 31, 2020; had not yet achieved profitable operations; had accumulated losses of \$9,385,170 at December 31, 2020; and expects to incur further losses in the development of its business. Palamina does not have adequate cash resources to fund its operations over the next twelve months and will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. There can be no certainty as to the ability of the Company to raise sufficient additional financing in order to continue to operate, and accordingly, there is a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

These consolidated financial statements were approved and authorized by the Board of Directors of the Company on April 22, 2021.

2.2 Basis of presentation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2.3 Use of management estimates, judgments and measurement uncertainty

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

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the Black-Scholes valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

Functional Currency

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

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

Tax Provisions

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Value-added taxes receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The determination of the appropriate allowance for doubtful accounts requires the application of significant judgment with respect to the collectability of the amounts outstanding and is based on historical experience. Refer to Note 7.

Determination of Significant Influence and Impairment of Investment in Associate

Effective September 19, 2019, which is the date of acquisition, the Company has classified Winshear Gold Corp ("Winshear") as an associate based on management's judgment that the Company has significant influence through board representation and voting rights. Refer to Note 17.

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

Contingencies – see Note 15.

2.4 COVID-19

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

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

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

3.2 Mineral properties

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

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

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is expensed as incurred. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2020 and 2019 there were no AROs.

3.4 Taxation

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

Current income tax

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

Deferred income tax

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Taxation (continued)

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

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

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

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

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

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

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

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The dilutive effect of outstanding options and warrants is calculated assuming that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. All outstanding option and warrants are antidilutive as at and for the years ended December 31, 2020 and 2019 and have been excluded from the calculation of diluted loss per share.

3.6 Financial Assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through net loss. The Company’s cash equivalents are classified as FVTPL.

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

Financial assets classified as FVOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). As at December 31, 2020 and 2019, the Company had no assets classified as FVOCI.

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

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

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial liabilities

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

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

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss. At December 31, 2020 and 2019, the Company has not classified any financial liabilities as FVTPL.

3.8 Impairment of non-financial assets

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

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

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

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Cash and cash equivalents

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

3.10 Provisions

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

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

3.11 Related party transactions

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

3.12 Foreign currency transactions

Functional and presentation currency

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Foreign currency transactions (continued)

Transactions and balances

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

Group companies

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

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

3.13 Equipment

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

Equipment	20% declining
-----------	---------------

3.14 Share-based payments

Share-based payment transactions

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

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

Equity-settled transactions

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Share-based payments (continued)

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

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

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

3.15 Investments in associates

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

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

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

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Investments in associates (continued)

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

The investment account of the investor reflects:

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

3.16 New accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company and have been excluded.

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

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

4. 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, 2020 totaled a deficiency of \$(213,660) (December 31, 2019 - \$43,017).

Palamina manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2020 and 2019.

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

5. FAIR VALUE AND FINANCIAL RISK FACTORS

Fair value of financial instruments

As at December 31, 2020 and December 31, 2019, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to their short term nature.

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents consist of cash on hand and on deposit with reputable financial institutions and management believe the risk of loss is minimal. The Company's maximum exposure to credit risk as at December 31, 2020 is the carrying value of cash and cash equivalents and receivables.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

5. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)

Liquidity risk

The Company's approach to managing liquidity risk is to endeavor to it have sufficient liquidity to meet liabilities when due. As at December 31, 2020, the Company had current assets of \$71,298 (December 31, 2019 - \$82,703) including cash and cash equivalents of \$61,713 (December 31, 2019 - \$34,656) to settle current liabilities of \$425,140 (December 31, 2019 - \$553,170) resulting in a working capital deficiency of \$353,842 (December 31, 2019 - \$470,467 working capital deficiency).

Market risk

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

Interest rate risk

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term guaranteed investment certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments. As at December 31, 2020, the Company had cash and cash equivalents of \$61,713 (December 31, 2019 - \$34,656).

Foreign currency risk

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

Price risk

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

Fair Value Hierarchy

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows: Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; Level 3 – Inputs for assets or liabilities that are not based on observable market data. As at December 31, 2020, the Company did not have any financial assets measured at fair value that require classification within the fair value hierarchy.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

5. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)

Sensitivity analysis

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

- (i) Interest rate risk is limited to cash and cash equivalents balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company's subsidiaries hold financial assets and liabilities in US dollars and Peruvian nuevo soles that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, net loss for the year ended December 31, 2020 would have been approximately \$1,000 higher/lower. If the Peruvian nuevo sole rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the year ended December 31, 2020 would have been approximately \$100 higher/lower.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even if commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them. As of December 31, 2020, the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

6. CASH AND CASH EQUIVALENTS

The balance at December 31, 2020 consists of cash on deposit with major Canadian and Peruvian banks in general interest bearing accounts totaling \$61,713 (December 31, 2019 - \$34,656). As at December 31, 2020 and 2019, the Company did not have any cash equivalents.

7. RECEIVABLES

The Company's receivables arise mainly from harmonized sales tax ("HST") due from the Canadian government. The value is as follows:

	As at,	
	December 31, 2020	December 31, 2019
	\$	\$
HST receivable	8,085	3,071
Other receivable	-	24,828
Total receivables	8,085	27,899

At December 31, 2020, the Company anticipates full recovery of the \$8,085 (December 31, 2019 - \$27,899). The Company holds no collateral for any receivable amounts outstanding as at December 31, 2020.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

8. EQUIPMENT

	Vehicles	Equipment	Total
	\$	\$	\$
Cost			
As at December 31, 2018	53,382	18,363	71,745
Additions	-	1,149	1,149
Disposals	(5,724)	-	(5,724)
Foreign exchange translation	(2,186)	(571)	(2,757)
As at December 31, 2019	45,472	18,941	64,413
Additions	-	1,174	1,174
Disposals	(47,713)	-	(47,713)
Foreign exchange translation	2,241	(442)	1,799
As at December 31, 2020	-	19,673	19,673
Accumulated depreciation			
As at December 31, 2018	19,014	3,706	22,720
Depreciation expense	9,290	4,080	13,370
Disposals	(4,532)	-	(4,532)
Foreign exchange translation	(366)	(263)	(629)
As at December 31, 2019	23,406	7,523	30,929
Depreciation expense	4,775	4,415	9,190
Disposals	(29,332)	-	(29,332)
Foreign exchange translation	1,151	(292)	859
As at December 31, 2020	-	11,646	11,646
Net book value			
As at December 31, 2019	22,066	11,418	33,484
As at December 31, 2020	-	8,027	8,027

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

9. TRADE AND OTHER PAYABLES

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

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

	As at,	
	December 31, 2020	December 31, 2019
	\$	\$
Less than 1 month	16,325	21,763
Over 1 month	408,815	531,407
Total trade and other payables	425,140	553,170

10. RELATED PARTIES AND KEY MANAGEMENT

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

Year ended December 31,	2020		2019	
Short-term employee benefits	\$	226,000	\$	289,000
Share based payments – options		52,000		155,000
Total compensation to key management	\$	278,000	\$	444,000

At December 31, 2020, included in trade and other payables is \$200,000 (December 31, 2019 - \$212,000) due to these key management personnel. These amounts are due on demand, unsecured and non-interest bearing.

Directors and officers subscribed for 1,851,200 units in the May 25, 2020 private placement and 153,333 units in the March 1, 2019 private placement.

During the year ended December 31, 2020, approximately \$12,000 in exploration expenses were charged to the Company from OTD Exploration, a company controlled by the Company's Vice President exploration.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

11. SHARE CAPITAL

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

	Number of Shares	Amount \$
Balance – December 31, 2018	29,891,371	4,337,364
Issued for cash pursuant to private placement of 5,625,665 units ⁽ⁱ⁾	5,625,665	1,687,600
Warrants issued ⁽ⁱ⁾	-	(522,000)
Share issue costs ⁽ⁱ⁾	-	(33,000)
Issued pursuant to exercise of stock options ⁽ⁱⁱ⁾	786,600	115,402
Transfer of reserve on exercise of stock options ⁽ⁱⁱ⁾	-	72,000
Balance – December 31, 2019	36,303,636	5,657,366
Issued for cash pursuant to private placement of 8,800,000 units ⁽ⁱⁱⁱ⁾	8,800,000	1,100,000
Warrants issued ⁽ⁱⁱⁱ⁾	-	(264,000)
Share issue costs ⁽ⁱⁱⁱ⁾	31,200	(45,848)
Issued pursuant to exercise of stock options ^(iv)	150,000	19,500
Transfer of reserve on exercise of stock options	-	13,000
Balance – December 31, 2020	45,284,836	6,480,018

- (i) On March 1, 2019, the Company closed the first tranche of a private placement consisting of 5,118,332 units at the price of \$0.30 per unit for total proceeds of \$1,535,500. Each unit consists of one common share and one warrant. Each warrant is exercisable to acquire one common share at a price of \$0.50 for a period of 24 months from the closing date. The Company has the option to accelerate the expiry date of the warrant provided that if after four months and one day following the closing of the private placement, the closing price of the common shares on the TSX Venture Exchange is equal to or greater than \$0.90 for 10 consecutive trading days.

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

- (ii) During 2019, 786,600 stock options were exercised for total proceeds of \$115,402. The stock options exercised are as follows: 150,000 at an exercise price of \$0.06, 300,000 at an exercise price of \$0.13, 261,600 at an exercise price of \$0.22 and 75,000 at an exercise price of \$0.13.

- (iii) On May 25, 2020 the Company closed a non-brokered private placement offering of 8,800,000 units at a purchase price of \$0.125 per unit, for aggregate gross proceeds of \$1,100,000. Each unit consists of one common share and one half of one warrant. Each whole warrant is exercisable to acquire one common share at a price of \$0.35 until May 25, 2022. The Company has the option to accelerate the expiry date of the warrant provided that if after four months and one day following the closing of the offering, the closing price of the common shares on the TSX Venture Exchange is equal to or greater than \$0.70 for 10 consecutive trading days.

The Company paid a cash finder's fee equal to 6% of the gross proceeds from the units placed by the finder and issued finder's warrants equal to 6% of the aggregate number of units sold attributable to the finder. Each finder warrant is exercisable to acquire one unit of the Company for a period of two years from the closing date at an exercise price of \$0.125 per Unit. The finder chose to use the cash finder's fee to subscribe for 31,200 units.

- (iv) During 2020, 150,000 stock options were exercised at an exercise price of \$0.13 per shares for total proceeds of \$19,500.

12. STOCK OPTIONS

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

As at December 31, 2020, the Company had 758,484 (December 31, 2019 – 520,364) options available for issuance under the Plan.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

12. STOCK OPTIONS (continued)

The continuity of outstanding stock options for the years ended December 31, 2020 and 2019 is as follows:

	Number of stock options	Weighted average exercise price per share \$
Balance – December 31, 2018	2,805,000	0.25
Granted ⁽ⁱ⁾	1,330,000	0.25
Exercised	(786,600)	0.14
Expired	(238,400)	0.32
Balance – December 31, 2019	3,110,000	0.27
Expired	(135,000)	0.31
Exercised	(150,000)	0.13
Granted ⁽ⁱⁱ⁾	945,000	0.30
Balance – December 31, 2020	3,770,000	0.29

- (i) On December 19, 2019, the Company granted 1,330,000 options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at \$0.25 per common share. The options granted to officers and directors expire in 5 years and the options granted to consultants expire in 2 years. The resulting fair value of \$269,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 118-134%; a risk-free interest rate of 1.67-1.69%, and an expected average life of 2 - 5 years, market price per share \$0.25. The options vested immediately.
- (ii) On September 9, 2020, the Company granted 945,000 options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at \$0.30 per common share. The options expire in 3-5 years. The resulting fair value of \$244,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 132%; a risk-free interest rate of 0.37%, and an expected average life of 3-5 years, market price per share \$0.30. The options vested immediately.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

12. STOCK OPTIONS (continued)

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

Exercise price ⁽ⁱ⁾ Outstanding	Number of options Outstanding	Exercisable	Expiry date	Remaining contractual life (years) ⁽ⁱ⁾
\$				
0.16	110,000	110,000	November 15, 2021	0.87
0.22	550,000	550,000	January 13, 2022	1.04
0.17	170,000	170,000	November 1, 2022	1.84
0.39	290,000	290,000	April 6, 2021	0.26
0.39	450,000	450,000	April 6, 2023	2.26
0.25	300,000	300,000	December 19, 2021	0.97
0.25	955,000	955,000	December 19, 2024	3.97
0.30	945,000	945,000	September 9, 2023 and 2025 ⁽²⁾	2.69
0.28	3,770,000	3,770,000		4.69

⁽ⁱ⁾ Total represents weighted average.

⁽²⁾ 170,000 expire in 2023 and 775,000 expire in 2025.

A summary of the changes in the Company's reserve for share-based payments for the years ended December 31, 2020 and 2019 is set out below:

	Amount \$
Balance – December 31, 2018	590,000
Stock-based compensation	269,000
Transfer of reserve on exercise of options	(72,000)
Balance – December 31, 2019	787,000
Stock-based compensation	244,000
Transfer of reserve on exercise of options	(13,000)
Balance – December 31, 2020	1,018,000

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

13. RESERVE FOR WARRANTS

The following table reflects the continuity of warrants for the years ended December 31, 2020 and 2019:

	Number of Warrants	Amount \$
Balance – December 31, 2018	7,166,667	910,000
Share purchase warrants issued pursuant to private placement ⁽ⁱ⁾	5,625,665	522,000
Share issue costs	-	(15,225)
Balance – December 31, 2019	12,792,332	1,416,775
Share purchase warrants issued pursuant to private placement ⁽ⁱⁱ⁾	4,400,000	264,000
Broker warrants issued pursuant to private placement ⁽ⁱⁱⁱ⁾	46,800	4,000
Warrants expired	(7,166,667)	-
Balance – December 31, 2020	10,072,465	1,684,775

- (i) The share purchase warrants issued pursuant to the private placement on March 1 and March 29, 2019 are described in Note 11(b)(i) above and have an estimated grant date fair value of \$522,000, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	1.55%-1.77%	Expected volatility ⁽¹⁾	125%-128%
Dividend yield	nil	Expected life-units	2 years
Market price per share	\$0.31		

- ⁽¹⁾Based on historical trading data.

- (ii) The share purchase warrants issued pursuant to the private placement on May 25, 2020 are described in Note 11(b)(iii) above and have an estimated grant date fair value of \$264,000, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	0.29%	Expected volatility ⁽¹⁾	128%
Dividend yield	nil	Expected life-units	2 years
Market price per share	\$0.14		

- ⁽¹⁾Based on historical trading data.

- (iii) The broker warrants issued pursuant to the private placement on May 25, 2020 are described in Note 11(b)(iii) above and have an estimated grant date fair value of \$4,000, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	0.29%	Expected volatility ⁽¹⁾	128%
Dividend yield	nil	Expected life-units	2 years
Market price per share	\$0.14		

- ⁽¹⁾Based on historical trading data.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

13. RESERVE FOR WARRANTS (continued)

Details of the warrants outstanding at December 31, 2020 are as follows:

Exercise price	Number and type of outstanding exercisable warrants	Expiry date	Remaining contractual life (years)
\$			
0.50	5,118,332 – Share Purchase Warrants	March 1, 2021	0.16
0.50	507,333 – Share Purchase Warrants	March 29, 2021	0.24
0.35	4,400,000 – Share Purchase Warrants	May 25, 2022	1.40
0.125	15,600 – Finder Warrants	May 25, 2022	1.40
0.35	31,200 – Finder Warrants	May 25, 2022	1.40
0.43	10,072,465		0.71

14. EXPLORATION AND EVALUATION EXPENDITURES

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

Year ended December 31,	2020	2019
Peru Properties	\$ 570,411	\$ 1,130,773
El Santuario Property	41,376	41,311
Exploration and evaluation expenditures	\$ 611,787	\$ 1,172,084

Peru Properties

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

El Santuario Property

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

15. COMMITMENTS AND CONTINGENCIES

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties.

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

16. SEGMENTED INFORMATION

At December 31, 2020, the Company's operations comprise a single operating segment engaged in mineral exploration in Peru and Mexico. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8, 'Operating Segments'. As the operations comprise a single operating segment for accounting purposes, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

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

As at,	December 31, 2020	December 31, 2019
	\$	\$
Canada	178,569	518,040
Peru	31,079	76,009
Mexico	1,832	2,174
	211,480	596,187

17. INVESTMENT IN ASSOCIATE

On September 19, 2019, the Company entered into an agreement with Winshear Gold Corp. ("Winshear") whereby Palamina sold 100% of the application and mining rights to the Gaban Gold and Tinka I.O.C.G. projects in Peru to Winshear ("Winshear Sale"). In exchange Palamina was issued 5 million shares of Winshear during the year ended December 31, 2019 and another 5 million common shares of Winshear during the year ended December 31, 2020.

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

As a result of the receipt of 10 million shares, Palamina held approximately 18% of the issued and outstanding shares of Winshear as at December 31, 2020 (2019 – 15.4%). Due to these shareholdings and the two directors it has appointed to the board of Winshear, the Company has determined that it has significant influence over Winshear and has accounted for its investment as an Investment in Associate using the equity basis of accounting. The Company recorded a fair value of \$527,000 for its interest in the 10 million Winshear shares issued to Palamina.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

17. INVESTMENT IN ASSOCIATES (Continued)

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

Winshear made an ARP in September 2020 of US\$25,000 (CDN\$32,920) pursuant to the September 19, 2019 Winshear Sale agreement.

Fair value of one Winshear share as at December 31, 2020 was \$0.105 which is based on the trading price of the shares.

Changes in the investment in associate for the years ended December 31, 2020 and 2019 were as follows:

Acquisition September 19, 2019, at fair value	\$ 527,000
Proportionate share of net loss	(47,000)
Balance – December 31, 2019	\$ 480,000
Proportionate share of net loss	(347,845)
Balance – December 31, 2020	\$ 132,155

The following is a summary of the consolidated financial information for Winshear on a 100% basis as at December 31, 2020 and 2019.

	2020	2019
	\$	\$
Cash	937,669	466,862
Other current assets	148,314	66,776
Total assets	1,086,013	1,189,757
Total current liabilities	105,976	262,120
Deficit	980,037	252,637
Total liabilities and deficit	1,086,013	1,189,757

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

18. INCOME TAXES

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Combined statutory income tax rate	26.5%	26.5%
Recovery of income taxes computed at statutory rates	(422,000)	(424,000)
Difference in foreign jurisdiction tax rates	(22,000)	(37,000)
Non-deductible expenses and other	54,000	80,000
Tax benefits of losses and temporary differences not recognized	390,000	381,000
Income tax provision	-	-

The Canadian statutory income tax rate of 26.5% (2019 - 26.5%) is comprised of the federal income tax rate at approximately 15.0% (2019 - 15.0%) and the provincial income tax rate of approximately 11.5% (2019 - 11.5%). The Mexican and Peruvian statutory income tax rates are approximately 30% (2019 - 30%).

The components of the unrecognized deferred income tax assets at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
<i>Deferred tax assets</i>	<u>\$</u>	<u>\$</u>
Deferred exploration expenditures	369,000	386,000
Non-capital losses carried forward	1,976,000	1,575,000
Deductible share issue costs	13,000	7,000
	<u>2,358,000</u>	<u>1,968,000</u>

The Company has tax loss carryforward balances that have not been recognized in Canada of \$2,797,000 (2019 - \$1,996,000), in Mexico of \$267,000 (2019 - \$191,000) and in Peru of \$3,867,000 (2019 - \$3,263,000). No deferred tax asset has been recognized as it is not probable that they will be utilized. As at December 31, 2020, the non-capital losses recognized in Mexico expire in 2026-2030, the non-capital losses recognized in Peru expire in 2021-2025, and the non-capital loss carry forwards recognized in Canada expire as follows:

	<u>Canada</u>
	<u>\$</u>
2035	313,000
2036	495,000
2037	448,000
2038	589,000
2039	152,000
2040	800,000
	<u>2,797,000</u>