

PALAMINA CORP.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

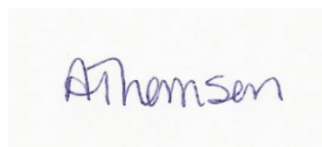
The accompanying unaudited interim consolidated financial statements of Palamina Corp. (the "Company") are the responsibility of the management and Board of Directors of the Company.

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

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

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

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



Andrew Thomson
President and Chief Executive Officer



Brian Jennings
Chief Financial Officer

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim consolidated statements for the three month periods ended March 31, 2017 and 2016 have not been reviewed by the Company's auditors.

PALAMINA CORP.

Unaudited Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

<i>As at,</i>	March 31, 2017	December 31, 2016
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (Note 5)	1,410,537	1,749,921
Receivables (Note 6)	10,540	12,669
Prepaid expenses	18,759	8,528
Total current assets	1,439,836	1,771,118
Equipment (Note 7)	7,002	4,172
Total assets	1,446,838	1,775,290
LIABILITIES AND EQUITY		
Current		
Trade and other payables (Notes 8 and 9)	133,446	137,786
Total liabilities	133,446	137,786
Equity		
Share capital (Note 10)	3,120,457	3,120,457
Reserve for share-based payments (Note 11)	251,000	104,000
Accumulated deficit	(2,051,997)	(1,579,004)
Reserve for foreign currency translation	(6,068)	(7,949)
Total equity	1,313,392	1,637,504
Total liabilities and equity	1,446,838	1,775,290

Nature of Operations (Note 1)

Commitments and Contingencies (Note 13)

On behalf of the Board of Directors on May 17, 2017:



Andrew Thomson
Director



Darin Wagner
Director

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

PALAMINA CORP.

Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	2017	2016
For the three months ended March 31,	\$	\$
Expenses		
Exploration and evaluation expenditures (Note 12)	207,909	90,691
Salaries, director and management fees	72,832	86,523
Investor relations	29,558	14,859
Professional fees	4,950	9,250
Regulatory fees	5,722	6,509
Office and general	6,465	3,798
Share based payments (Note 11)	147,000	-
Rent	3,600	3,600
Foreign exchange loss	(2,216)	1,134
Total expenses	475,820	216,364
Other income		
Interest income	(2,827)	(2,585)
Net loss	472,993	213,779
Other Comprehensive Loss - items that will not subsequently reclassify into income		
Exchange loss on translation of foreign subsidiary	(1,881)	2,429
Net comprehensive loss	471,112	216,208
Loss per share - basic and diluted	0.02	0.01
Weighted average number of common shares outstanding (Note 1)	22,574,704	14,574,704

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

PALAMINA CORP.

Unaudited Interim Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian dollars)

	Share Capital		Reserve for Share-based payments	Accumulated deficit	Reserve for foreign currency translation	Total
	Number of shares	Amount				
Balance at December 31, 2015	14,574,704	\$ 1,943,101	\$ 84,000	\$ (565,550)	\$ (824)	\$ 1,460,727
Net loss	-	-	-	(213,779)	-	(213,779)
Other comprehensive loss	-	-	-	-	(2,429)	(2,429)
Balance at March 31, 2016	14,574,704	\$ 1,943,101	\$ 84,000	\$ (779,329)	\$ (3,253)	\$ 1,244,519
Issuance of share capital, net of issue costs (Note 10)	8,000,000	1,177,356	-	-	-	1,177,356
Share based payments	-	-	20,000	-	-	20,000
Net loss	-	-	-	(799,675)	-	(799,675)
Other comprehensive loss	-	-	-	-	(4,696)	(4,696)
Balance at December 31, 2016	22,574,704	\$ 3,120,457	\$ 104,000	\$ (1,579,004)	\$ (7,949)	\$ 1,637,504
Share based payments	-	-	147,000	-	-	147,000
Net loss	-	-	-	(472,993)	-	(472,993)
Other comprehensive loss	-	-	-	-	1,881	1,881
Balance at March 31, 2017	22,574,704	\$ 3,120,457	\$ 251,000	\$ (2,051,997)	\$ (6,068)	\$ 1,313,392

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

PALAMINA CORP.

Unaudited Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	2017	2016
For the three months ended March 31,	\$	\$
Operating activities		
Net loss for the period	(472,993)	(213,779)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share based payments	147,000	-
Amortization	380	126
Unrealized foreign exchange differences	1,504	(2,439)
Change in non-cash working capital		
Receivables	2,129	(1,533)
Prepaid expenses	(10,231)	(5,058)
Trade and other payables	(4,340)	(4,969)
Cash used in operating activities	(336,551)	(227,652)
Investing activities		
Purchase of equipment	(2,833)	(6,073)
Cash used in investing activities	(2,833)	(6,073)
Decrease in cash and cash equivalents	(339,384)	(233,725)
Cash and cash equivalents, beginning of period	1,749,921	1,564,546
Cash and cash equivalents, end of period	1,410,537	1,330,821

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

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Palamina Corp. (“Palamina” or the “Company”) is an exploration stage company focused on the exploration for economic mineral deposits in Mexico through its wholly owned subsidiary, Palamina S.A. de C.V. (“Palamina Mexico”), and its wholly owned subsidiary in Peru Palamina SAC (“Palamina Peru”). 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.

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 and its continued existence 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. These consolidated financial statements 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 accompanying consolidated financial statements. These adjustments could be material.

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.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

These unaudited interim consolidated financial statements were authorized by the Board of Directors of the Company on May 17, 2017.

2.2 Basis of presentation

These unaudited interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2016 annual financial statements.

2.3 Use of management estimates, judgments and measurement uncertainty

The preparation of these financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates and judgements, other than those already disclosed in Note 2.2, relate to the valuation of share-based payments, determination of functional currency, and tax provisions. Significant estimates and judgements made by management in the preparation of these financial statements are outlined below:

Share-based payment transactions

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

Functional Currency

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

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(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 6.

2.4 Adoption of new and revised standards and interpretations

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.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

2.4 Adoption of new and revised standards and interpretations (continued)

- 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.

3. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

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

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

The Company considers its capital to be equity, comprising share capital, reserve accounts, accumulated deficit and reserve for foreign currency translation which at March 31, 2017 totaled \$1,313,392 (December 31, 2016 - \$1,637,504).

Palamina manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the three month period ended March 31, 2017.

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.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

4. FAIR VALUE AND FINANCIAL RISK FACTORS

Fair value of financial instruments

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

March 31, 2017	Level One	Level Two	Level Three
	\$	\$	\$
Cash equivalents	-	1,204,611	-
Trade and other payables	-	133,446	-

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

As at March 31, 2017 and December 31, 2016, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to their short term nature.

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents consist of cash on hand and on deposit with reputable financial institutions and management believe the risk of loss is minimal. The Company's maximum exposure to credit risk as at March 31, 2017 is the carrying value of cash and cash equivalents.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2017, the Company had current assets of \$1,439,836 (December 31, 2016 - \$1,771,118) including cash and cash equivalents of \$1,410,537 (December 31, 2016 - \$1,749,921) to settle current liabilities of \$133,446 (December 31, 2016 - \$137,786) resulting in working capital of \$1,306,390 (December 31, 2016 - \$1,633,332 working capital).

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

4. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)

Market risk

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

Interest rate risk

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term guaranteed investment certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments. As at March 31, 2017, the Company had cash and cash equivalents of \$1,410,537 (December 31, 2016 - \$1,749,921).

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 subsidiaries hold financial assets and liabilities in US dollars, Peruvian nuevo soles, 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 three month period ended March 31, 2017 would have been approximately \$6,000 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 three month period ended March 31, 2017 would have been approximately \$700 higher/lower.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
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(Expressed in Canadian dollars)

4. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)

- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even if commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them. As of March 31, 2017, 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.

5. CASH AND CASH EQUIVALENTS

The balance at March 31, 2017 consists of cash on deposit with major Canadian and Mexican banks in general interest bearing accounts totaling \$205,926 (December 31, 2016 - \$146,637) and cashable guaranteed investment certificates with major Canadian banks of \$1,204,611 (December 31, 2016 - \$1,603,284) for total cash and cash equivalents of \$1,410,537 (December 31, 2016 - \$1,749,921).

6. RECEIVABLES

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

	As at,	
	March 31, 2017	December 31, 2016
	\$	\$
HST receivable	7,650	7,617
Mexican value-added taxes receivable	2,890	5,021
Other receivable	-	31
Total receivables	10,540	12,669

As at March 31, 2017, the total Mexican value-added taxes receivable is \$5,780 and a provision for non-collection of \$2,890 has been recorded. The Company has recorded a 50% provision of VAT based on historical trends.

At March 31, 2017, the Company anticipates full recovery of the \$10,540 (December 31, 2016 - \$12,669). The Company holds no collateral for any receivable amounts outstanding as at March 31, 2017.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

7. EQUIPMENT

	Vehicles \$	Equipment \$	Total \$
Cost			
As at December 31, 2015	-	-	-
Additions	5,757	-	5,757
Foreign exchange translation	(487)	-	(487)
As at December 31, 2016	5,270	-	5,270
Additions	-	2,833	2,833
Foreign exchange translation	490	20	510
As at March 31, 2017	5,760	2,853	8,613
Accumulated depreciation			
As at December 31, 2015	-	-	-
Depreciation expense	1,199	-	1,199
Foreign exchange translation	(101)	-	(101)
As at December 31, 2016	1,098	-	1,098
Depreciation expense	330	50	380
Foreign exchange translation	132	1	133
As at March 31, 2017	1,560	51	1,611
Net book value			
As at December 31, 2015	-	-	-
As at December 31, 2016	4,172	-	4,172
As at March 31, 2017	4,200	2,802	7,002

8. TRADE AND OTHER PAYABLES

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

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

	As at,	
	March 31, 2017 \$	December 31, 2016 \$
Less than 1 month	108,583	61,988
Over 1 month	24,863	75,798
Total trade and other payables	133,446	137,786

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
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(Expressed in Canadian dollars)

9. RELATED PARTIES AND KEY MANAGEMENT

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

Three months ended March 31,	2017	2016
Balances:		
Short-term employee benefits	\$ 95,000	\$ 115,000
Share based payments – options	107,000	-
Total compensation to key management	\$ 202,000	\$ 115,000

At March 31, 2017, included in trade and other payables is \$70,600 (December 31, 2016 - \$57,838) due to these key management personnel. These amounts are due on demand, unsecured and non-interest bearing.

10. SHARE CAPITAL

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

	Number of Shares	Amount \$
Balance – December 31, 2015	14,574,704	1,943,101
Issued for cash pursuant to private placement of 8,000,000 shares (i)	8,000,000	1,200,000
Share issue costs (i)	-	(22,644)
Balance – December 31, 2016 and March 31, 2017	22,574,704	3,120,457

- (i) 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.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
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(Expressed in Canadian dollars)

11. STOCK OPTIONS

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

As at March 31, 2017, the Company had 72,470 (December 31, 2016 – 982,470) options available for issuance under the Plan.

The continuity of outstanding stock options for the three month period ended March 31, 2017 and year ended December 31, 2016 is as follows:

	Number of stock options	Weighted average exercise price per share \$
Balance – December 31, 2015	1,125,000	0.11
Granted (i)	150,000	0.16
Balance – December 31, 2016	1,275,000	0.12
Granted (ii)	910,000	0.22
Balance – March 31, 2017	2,185,000	0.16

- (i) 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.
- (ii) On January 13, 2017, the Company granted 910,000 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. The resulting fair value of \$147,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 113%; a risk-free interest rate of 0.79% for 2 year options and 1.13% for 5 year options, and an expected average life of 2 - 5 years. The options vested immediately.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2017 and 2016
(Expressed in Canadian dollars)

11. STOCK OPTIONS (continued)

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

Exercise price ⁽ⁱ⁾	Number of options		Expiry	Remaining
Outstanding	Outstanding	Exercisable	date	contractual
\$				life (years) ⁽ⁱ⁾
0.13	825,000	825,000	September 15, 2020	3.46
0.06	300,000	300,000	December 1, 2020	3.67
0.16	150,000	150,000	November 15, 2021	4.63
0.22	260,000	260,000	January 13, 2019	1.79
0.22	650,000	650,000	January 13, 2022	4.79
0.16	2,185,000	2,185,000		3.77

(i) Total represents weighted average.

A summary of the changes in the Company's reserve for share-based payments for the three month period ended March 31, 2017 and year ended December 31, 2016 is set out below:

	Amount
	\$
Balance – December 31, 2015	84,000
Stock-based compensation	20,000
Balance – December 31, 2016	104,000
Stock-based compensation	147,000
Balance – March 31, 2017	251,000

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12. EXPLORATION AND EVALUATION EXPENDITURES

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

Three month period ended March 31,	2017	2016
Peru Properties	\$ 185,735	\$ -
El Santuario Property	18,569	80,207
Gavilan Property	3,223	8,511
Chinipas Property	382	1,973
Exploration and evaluation expenditures	\$ 207,909	\$ 90,691

Peru Properties

In January 2017, Palamina incorporated a wholly owned subsidiary in Peru ("Palamina SAC") and acquired certain mining claim applications within the Department of Puno in southeast Peru, north of Lake Titicaca.

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.

Gavilan Property

During the period ended March 31, 2017, Palamina Mexico submitted applications to drop the Gavilan concession located in the State of Queretaro, Mexico.

Chinipas Property

During the period ended March 31, 2017, Palamina Mexico submitted applications to drop the Chinipas concessions located in the State of Chihuahua, Mexico.

13. 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.

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14. SEGMENTED INFORMATION

At March 31, 2017, the Company's operations comprise a single operating segment engaged in mineral exploration in Mexico and Peru. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8, '*Operating Segments*'. As the operations comprise a single operating segment for accounting purposes, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

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

As at,	March 31, 2017 \$	December 31, 2016 \$
Canada	1,348,853	1,763,472
Mexico	25,075	11,818
Peru	72,910	-
	1,446,838	1,775,290
