

# **PALAMINA CORP.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED  
SEPTEMBER 30, 2016 AND 2015**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

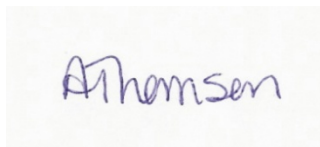
The accompanying unaudited interim consolidated financial statements of Palamina Corp. (the "Company") are the responsibility of the management and Board of Directors of the Company.

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

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### **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 and nine month periods ended September 30, 2016 and 2015 have not been reviewed by the Company's auditors.

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# PALAMINA CORP.

## Unaudited Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

<i>As at,</i>	September 30, 2016 \$	December 31, 2015 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 5)	2,081,608	1,564,546
Receivables (Note 6)	13,388	26,511
Prepaid expenses	22,549	2,491
	2,117,545	1,593,548
Fixed assets (Note 7)	4,688	-
	2,122,233	1,593,548
<b>LIABILITIES AND EQUITY</b>		
Current		
Trade and other payables (Notes 8, 9 and 12)	103,725	132,821
	103,725	132,821
<b>Equity</b>		
Share capital (Note 10)	3,120,457	1,943,101
Reserve for share-based payments (Note 11)	84,000	84,000
Accumulated deficit	(1,180,276)	(565,550)
Reserve for foreign currency translation	(5,673)	(824)
	2,018,508	1,460,727
	2,122,233	1,593,548

*Nature of Operations (Note 1)*

*Commitments and Contingencies (Note 13)*

*Subsequent Events (Note 15)*

On behalf of the Board of Directors on November 25, 2016:



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)

	<b>Three months</b>		<b>Nine months</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>For the period ended September 30,</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Expenses</b>				
Salaries and management fees	<b>77,731</b>	65,513	<b>257,672</b>	108,810
Exploration and evaluation expenditures (Note 12)	<b>80,460</b>	69,838	<b>226,183</b>	158,790
Investor relations and regulatory	<b>48,155</b>	19,478	<b>78,889</b>	30,420
Professional fees	<b>9,250</b>	53,793	<b>34,430</b>	63,626
Office and general	<b>4,722</b>	3,126	<b>11,892</b>	10,294
Rent	<b>4,350</b>	3,600	<b>11,550</b>	4,961
Foreign exchange loss	<b>(303)</b>	(549)	<b>131</b>	(32)
Share based payments (Note 11)	-	72,000	-	72,000
<b>Total expenses</b>	<b>224,365</b>	286,799	<b>620,747</b>	448,869
<b>Other income</b>				
Interest income	<b>(2,589)</b>	(4,678)	<b>(6,021)</b>	(4,678)
<b>Net loss</b>	<b>221,776</b>	282,121	<b>614,726</b>	444,191
<b>Other Comprehensive Loss - items that may subsequently reclassify into income</b>				
Exchange loss on translation of foreign subsidiary	<b>(2,178)</b>	882	<b>4,849</b>	914
<b>Net comprehensive loss</b>	<b>219,598</b>	283,003	<b>619,575</b>	445,105
<b>Loss per share - basic and diluted</b>	<b>0.01</b>	0.02	<b>0.04</b>	0.03
Weighted average number of common shares outstanding (Note 1)	<b>19,270,356</b>	14,574,704	<b>16,151,346</b>	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	Deficiency in net assets	Reserve for foreign currency translation	Total
	Number of shares	Amount					
<b>Balance at January 1, 2015</b>	-	\$ -	\$ -	\$ -	\$ (10,000)	\$ -	\$ (10,000)
Net loss and comprehensive loss	-	-	-	(325,425)	(118,766)	-	(444,191)
Share based payments	-	-	72,000	-	-	-	72,000
Other comprehensive loss	-	-	-	-	-	(914)	(914)
Net investment by Soltoro	-	-	-	-	128,766	-	128,766
Issued pursuant to the Arrangement (Note 1)	14,574,704	1,943,101	-	-	-	-	1,943,101
<b>Balance at September 30, 2015</b>	<b>14,574,704</b>	<b>\$ 1,943,101</b>	<b>\$ 72,000</b>	<b>\$ (325,425)</b>	<b>\$ -</b>	<b>\$ (914)</b>	<b>\$ 1,688,762</b>
Net loss and comprehensive loss	-	-	-	(240,125)	-	-	(240,125)
Other comprehensive loss	-	-	-	-	-	90	90
Share based payments	-	-	12,000	-	-	-	12,000
<b>Balance at December 31, 2015</b>	<b>14,574,704</b>	<b>\$ 1,943,101</b>	<b>\$ 84,000</b>	<b>\$ (565,550)</b>	<b>\$ -</b>	<b>\$ (824)</b>	<b>\$ 1,460,727</b>
Issuance of share capital, net of issue costs (Note 10)	8,000,000	1,177,356	-	-	-	-	1,177,356
Net loss and comprehensive loss	-	-	-	(614,726)	-	-	(614,726)
Other comprehensive loss	-	-	-	-	-	(4,849)	(4,849)
<b>Balance at September 30, 2016</b>	<b>22,574,704</b>	<b>\$ 3,120,457</b>	<b>\$ 84,000</b>	<b>\$ (1,180,276)</b>	<b>\$ -</b>	<b>\$ (5,673)</b>	<b>\$ 1,060,750</b>

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)

	<b>2016</b>	<b>2015</b>
<b>For the nine months ended September 30,</b>	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net loss for the period	<b>(614,726)</b>	(444,191)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share based payments	-	72,000
Amortization	<b>854</b>	-
Unrealized foreign exchange differences	<b>(4,535)</b>	(914)
Change in non-cash working capital		
Value-added taxes receivable	<b>13,123</b>	(11,505)
Prepaid expenses	<b>(20,058)</b>	(2,491)
Trade and other payables	<b>(29,096)</b>	93,779
Cash used in operating activities	<b>(654,438)</b>	(293,322)
<b>Investing activities</b>		
Purchase of vehicle	<b>(5,856)</b>	-
Cash used in investing activities	<b>(5,856)</b>	-
<b>Financing activities</b>		
Issuance of share capital and warrants, net of issue costs	<b>1,177,356</b>	-
Funds received pursuant to the Arrangement (Note 1)	-	1,943,101
Increase in equity in net assets	-	128,766
Cash provided from financing activities	<b>1,177,356</b>	2,071,867
<b>Increase in cash and cash equivalents</b>	<b>517,062</b>	1,778,545
<b>Cash and cash equivalents, beginning of period</b>	<b>1,564,546</b>	-
<b>Cash and cash equivalents, end of period</b>	<b>2,081,608</b>	1,778,545

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 and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**1. NATURE OF OPERATIONS**

Palamina Corp. (“Palamina” or the “Company”) is an exploration stage company focused on one operating segment being the exploration for economic mineral deposits in Mexico through its wholly owned subsidiary, Palamina S.A. de C.V. (“Palamina Mexico”). Palamina was incorporated on April 23, 2015 under the *Business Corporations Act* (Ontario). The Company’s head office is located at 10 King Street East, Suite 501, Toronto, Ontario, M5C 1C3.

On April 10, 2015, Soltoro Ltd. (“Soltoro”) entered into an arrangement agreement (the “Agreement”) with Agnico Eagle Mines Limited (“Agnico”) pursuant to which Agnico would acquire, by way of court approved plan of arrangement (the “Arrangement”), all of the issued and outstanding common shares of Soltoro.

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

On October 20, 2015 the Company effected a consolidation of its common shares on the basis of one (1) post - consolidation common share for every 6.666 pre - consolidation common shares outstanding. The consolidation was approved by the shareholders of the Company at the Company’s special shareholders’ meeting held on October 15, 2015. Upon completion of the consolidation, Palamina had 14,574,704 common shares issued and outstanding, reduced from 97,155,037 pre-consolidation common shares which were previously issued and outstanding. Loss per share and all amounts in respect of share capital for all periods presented have been adjusted to reflect this share consolidation, unless otherwise noted.

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.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**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 November 25, 2016.

**2.2 Basis of presentation and Impact of the Arrangement**

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

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

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

***Presentation of the Consolidated Statements of Financial Position***

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



**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

**2. BASIS OF PREPARATION (continued)**

**2.2 Basis of presentation and Impact of the Arrangement (continued)**

***Presentation of the Consolidated Statements of Loss and Comprehensive Loss***

The unaudited interim consolidated statements of loss and comprehensive loss for the period ended September 30, 2015 reflects the amounts allocated from Soltoro to June 9, 2015 (the “Soltoro Expenditures”) and recorded by Palamina subsequent to June 9, 2015 (the “Palamina Expenditures”) with respect to the Mexico Properties.

The Soltoro Expenditures include all direct exploration and evaluation expenditures incurred by Soltoro on the Mexico Properties and a pro-rata allocation of Soltoro’s non-exploration and evaluation expenditures incurred in each of the periods presented based on the percentage of exploration and evaluation expenditures incurred on the Mexico Properties compared to exploration evaluation expenditures incurred on all Soltoro properties. The allocation of non-exploration and evaluation expenditures for 2015 is 8.65%.

The Soltoro Expenditures and the Palamina Expenditures for the nine month period ended September 30, 2015 are as follows.

	<b>Soltoro Expenditures</b>	<b>Palamina Expenditures</b>	<b>Nine month period ended September 30, 2015</b>
	\$	\$	\$
<b>Expenses</b>			
Exploration and evaluation expenditures	80,875	77,915	<b>158,790</b>
Salaries and management fees	24,954	83,856	<b>108,810</b>
Share based payments	-	72,000	<b>72,000</b>
Investor relations	7,145	23,275	<b>30,420</b>
Professional fees	1,833	61,793	<b>63,626</b>
Rent	1,361	3,600	<b>4,961</b>
Foreign exchange loss	552	(584)	<b>(32)</b>
Office and general	2,046	8,248	<b>10,294</b>
<b>Net loss</b>	<b>118,766</b>	<b>330,103</b>	<b>448,869</b>
<b>Other (income) expenses</b>			
Interest income	-	(4,678)	<b>(4,678)</b>
<b>Net loss</b>	<b>118,766</b>	<b>43,304</b>	<b>444,191</b>

***Presentation of the Consolidated Statements of Changes in Equity***

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

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**2. BASIS OF PREPARATION (continued)**

**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 already disclosed in Note 2.2, relate to the calculation of share-based payments, determination of functional currency, and the recoverability of value-added taxes receivable. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below:

***Share-based payment transactions***

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

***Value-added Taxes Receivable***

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.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**2. BASIS OF PREPARATION (continued)**

**2.4 Adoption of new and revised standards and interpretations**

*Adoption of New Standards*

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

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

IAS 38 - Intangible Assets (“IAS 38”) and IAS 16 – Property, Plant and Equipment (“IAS 16”), were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of the standard has not had an impact on the Company’s financial statements.

*New standards and interpretations to be adopted in future*

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

- IFRS 9 ‘*Financial Instruments: Classification and Measurement*’ – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 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.
- IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”). In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. 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 and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**2. BASIS OF PREPARATION (continued)**

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

- IFRS 16 - In 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) has been adopted. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

**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 (deficiency), comprising share capital, reserve accounts, accumulated deficit and accumulated other comprehensive income (loss) which at September 30, 2016 totaled \$2,018,508 (December 31, 2015 - \$1,460,727).

Palamina manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the nine month period ended September 30, 2016. The Company is not subject to any capital requirements.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**4. FAIR VALUE AND FINANCIAL RISK FACTORS**

**Fair value of financial instruments**

The Company has designated its cash and cash equivalents as FVTPL which are measured at fair value. Fair value of cash and cash equivalents is determined based on transaction value and is categorized as a Level one measurement. Value-added taxes receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost which approximates fair value. Trade and other payables are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also approximates fair value. Fair value of value-added taxes receivable and trade and other payables are determined based on Level two measurements.

- 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.

	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	2,081,608	-	-
Receivables	-	13,388	-
Trade and other payables	-	103,725	-

As at September 30, 2016, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

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 and value-added taxes receivable. 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. Value-added taxes receivable consist primarily of harmonized sales tax ("HST") due from the Canadian government and value added taxes ("VAT") due from the Mexican government taxation authorities. Management believes the risk of loss for HST to be minimal and the risk of loss for VAT to be moderate to high due to the risk associated with operating in Mexico. The Company's maximum exposure to credit risk as at September 30, 2016 is the carrying value of cash and cash equivalents and value-added taxes receivable.

**PALAMINA CORP.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**Three and Nine Month Periods Ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

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**4. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)**

**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 September 30, 2016, the Company had current assets of \$2,117,545 (December 31, 2015 - \$1,593,548) including cash and cash equivalents of \$2,081,608 (December 31, 2015 - \$1,564,546) to settle current liabilities of \$103,725 (December 31, 2015 - \$132,821) resulting in a working capital of \$2,013,820 (December 31, 2015 - \$1,460,727 working capital).

**Market risk**

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

***Interest rate risk***

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term guaranteed investment certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments. As at September 30, 2016, the Company had cash and cash equivalents of \$2,081,608 (December 31, 2015 - \$1,564,546).

***Foreign currency risk***

The Company's exploration activities are conducted entirely in Mexico. Major purchases and exploration expenditures are transacted in Mexican pesos 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 and US dollars when required to fund expenditures.

***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.

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**4. 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.
- (ii) The Company's subsidiary holds financial assets and liabilities in US dollars and Mexican pesos that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, net loss for the nine month period ended September 30, 2016 would have been approximately \$100 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 nine month period ended September 30, 2016 would have been approximately \$100 higher/lower.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even if commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them. As of September 30, 2016, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

**5. CASH AND CASH EQUIVALENTS**

The balance at September 30, 2016 consists of cash on deposit with major Canadian and Mexican banks in general interest bearing accounts totaling \$78,557 (December 31, 2015 - \$57,385) and cashable guaranteed investment certificates with major Canadian banks of \$2,003,051 (December 31, 2015 - \$1,507,161) for total cash and cash equivalents of \$2,081,608 (December 31, 2015 - \$1,564,546).

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**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:

	<b>As at,</b>	
	September 30, 2016	December 31, 2015
	\$	\$
HST receivable	7,662	23,689
Mexican value-added taxes receivable	5,693	2,410
Other receivable	33	412
<b>Total receivables</b>	<b>13,388</b>	<b>26,511</b>

As at September 30, 2016, the total Mexican value-added taxes receivable is \$11,386 and a provision for non-collection of \$5,693 has been recorded. The Company has recorded a 50% provision for VAT arising during 2015 and 2016 based on historical trends.

At September 30, 2016, the Company anticipates full recovery of the \$13,388 (December 31, 2015 - \$26,511). The credit risk on the receivables has been further discussed in Note 4. The Company holds no collateral for any receivable amounts outstanding as at September 30, 2016.

**7. FIXED ASSETS**

	<b>Vehicles</b>
	\$
<b>Cost</b>	
As at December 31, 2015	-
Additions	5,856
Foreign exchange translation	(368)
<b>As at September 30, 2016</b>	<b>5,488</b>
<b>Accumulated depreciation</b>	
As at December 31, 2015	-
Depreciation expense	854
Foreign exchange translation	(54)
<b>As at September 30, 2016</b>	<b>800</b>
<b>Net book value</b>	
As at December 31, 2015	-
<b>As at September 30, 2016</b>	<b>4,688</b>



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**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:

	<b>As at,</b>	
	September 30, 2016	December 31, 2015
	\$	\$
Less than 1 month	43,884	102,821
Over 1 month	59,841	30,000
<b>Total trade and other payables</b>	<b>103,725</b>	<b>132,821</b>

**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:

<b>Nine months ended September 30,</b>	<b>2016</b>		<b>2015</b>	
<b>Balances:</b>				
Short-term employee benefits	\$	351,000	\$	118,000
Share based payments – options		-		72,000
<b>Total compensation to key management</b>	<b>\$</b>	<b>351,000</b>	<b>\$</b>	<b>190,000</b>

At September 30, 2016, included in trade and other payables is \$28,078 (December 31, 2015 - \$50,177) due to these key management personnel with no specific terms of repayment.

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**10. SHARE CAPITAL**

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

b) Issued and outstanding:

	Number of Shares	Amount \$
<b>Balance – December 31, 2014</b>	-	-
Issued pursuant to the Arrangement ((i), (ii) and Note 1)	14,574,704	1,943,101
<b>Balance – December 31, 2015</b>	<b>14,574,704</b>	<b>1,943,101</b>
Issued for cash pursuant to private placement of 8,000,000 shares (iii)	8,000,000	1,200,000
Share issue costs (iii)	-	(22,644)
<b>Balance – September 30, 2016</b>	<b>22,574,704</b>	<b>3,120,457</b>

- (i) Pursuant to the Arrangement as described in Note 1 each Soltoro shareholder received one common share of Palamina in exchange for each of their existing Soltoro common shares.
- (ii) On October 20, 2015 the Company effected a consolidation of its common shares on the basis of one (1) post - consolidation common share for every 6.666 pre - consolidation common shares outstanding. The consolidation was approved by the shareholders of the Company at the Company's special shareholders' meeting held on October 15, 2015. Upon completion of the consolidation, Palamina had 14,574,704 common shares issued and outstanding, reduced from 97,155,037 pre-consolidation common shares which were previously issued and outstanding.
- (iii) On August 8, 2016 the Company closed a non-brokered private placement comprised of 8,000,000 common shares at a purchase price of \$0.15 per share for aggregate gross proceeds of \$1,200,000.

**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.

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

As at September 30, 2016, the Company had 1,132,470 (December 31, 2015 – 332,470) options available for issuance under the Plan.

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**11. STOCK OPTIONS (continued)**

The continuity of outstanding stock options for the nine month period ended September 30, 2016 and year ended December 31, 2015 is as follows:

	Number of stock options	Weighted average exercise price per share \$
<b>Balance – December 31, 2014</b>	-	-
Granted (i) and (ii)	1,125,000	0.11
<b>Balance – December 31, 2015 and September 30, 2016</b>	<b>1,125,000</b>	<b>0.11</b>

- (i) On September 15, 2015 the Company granted 825,000 options under the Plan with an exercise price of \$0.13 and an expiry date of September 15, 2020. The resulting fair value of \$72,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 83%; a risk-free interest rate of 0.84% and an expected average life of 5 years. The grant date share value was determined to be \$0.13 based on capitalization value as disclosed in Note 1. The options vest immediately.
- (ii) On December 1, 2015 the Company granted 300,000 options under the Plan with an exercise price of \$0.06 and an expiry date of December 1, 2020. The resulting fair value of \$12,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 83%; a risk-free interest rate of 0.86% and an expected average life of 5 years. The options vested immediately.

Volatility was estimated based on the stock volatility of Soltoro up to June 9, 2015, from who the assets forming Palamina were spun out. The expected life was estimated to be the contractual life of the options based on historical results of Soltoro.

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

Exercise price <sup>(i)</sup>	Number of options		Expiry	Remaining contractual life (years) <sup>(i)</sup>
Outstanding	Outstanding	Exercisable	date	
\$				
0.13	825,000	825,000	September 15, 2020	3.96
0.06	300,000	300,000	December 1, 2020	4.17
<b>0.11</b>	<b>1,125,000</b>	<b>1,125,000</b>		<b>4.02</b>

(i) Total represents weighted average.

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**11. STOCK OPTIONS (continued)**

A summary of the changes in the Company's reserve for share-based payments for the nine month period ended September 30, 2016 and year ended December 31, 2015 is set out below:

	<b>Amount</b> <b>\$</b>
<b>Balance – December 31, 2014</b>	-
Stock-based compensation	84,000
<b>Balance – December 31, 2015 and September 30, 2016</b>	<b>84,000</b>

**12. EXPLORATION AND EVALUATION EXPENDITURES**

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

<b>Nine month period ended September 30,</b>	<b>2016</b>	<b>2015</b>
El Santuario Property	\$ 207,224	\$ 130,247
Gavilan Property	16,166	24,651
Chinipas Property	2,793	3,892
<b>Exploration and evaluation expenditures</b>	<b>\$ 226,183</b>	<b>\$ 158,790</b>

**El Santuario Property**

Palamina-Mexico holds 100% title interest to the "El Santuario" and "Sant" concessions which make up the El Santuario Property located in the State of Hidalgo, Mexico.

**Gavilan Property**

Palamina-Mexico holds 100% title interest to the "Gavilan" concession located in the State of Queretaro, Mexico.

**Chinipas Property**

Palamina-Mexico holds 100% title interest to 2 concessions which make up the "Chinipas" Property located in the State of Chihuahua, Mexico.

In 2013 Soltoro submitted applications to reduce the area covered by the concessions that comprise the Chinipas Property and paid the concession property taxes based on the area covered by the reduction applications. In the event the reduction applications are not approved by the Mines Department, Soltoro was liable for additional concession property taxes of approximately \$10,000. The reduction applications were approved February 8, 2015 and the liability is \$nil as at September 30, 2016 (December 31, 2015 - \$nil).

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**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.

**14. SEGMENTED INFORMATION**

At September 30, 2016, the Company's operations comprise a single operating segment engaged in mineral exploration in 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:

<b>As at,</b>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>\$</b>	<b>\$</b>
Canada	2,100,166	1,577,277
Mexico	22,067	16,271
	2,122,233	1,593,548

**15. SUBSEQUENT EVENTS**

On November 15, 2016 the Company granted 150,000 options under the stock option plan. The options vest immediately, are exercisable at \$0.16 per common share and expire on November 15, 2021.