

PALAMINA CORP.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2018 AND 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

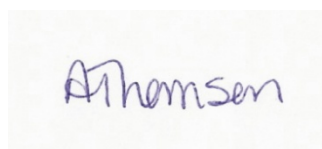
The accompanying unaudited interim consolidated financial statements of Palamina Corp. (the "Company") are the responsibility of the management and Board of Directors of the Company.

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, 2018 and 2017 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, 2018 \$	December 31, 2017 \$
ASSETS		
Current		
Cash and cash equivalents (Note 5)	1,826,670	296,805
Receivables (Note 6)	13,364	9,130
Prepaid expenses	11,625	22,766
Total current assets	1,851,659	328,701
Equipment (Note 7)	46,195	46,066
Total assets	1,897,854	374,767
LIABILITIES AND EQUITY		
Current		
Trade and other payables (Notes 8 and 9)	109,194	267,126
Total liabilities	109,194	267,126
Equity		
Share capital (Note 10)	4,337,364	3,120,457
Reserve for share-based payments (Note 11)	274,000	280,000
Reserve for warrants (Note 12)	910,000	-
Accumulated deficit	(3,714,373)	(3,274,412)
Reserve for foreign currency translation	(18,331)	(18,404)
Total equity	1,788,660	107,641
Total liabilities and equity	1,897,854	374,767

Nature of Operations and Going Concern Uncertainty (Note 1)

Commitments and Contingencies (Note 14)

Events after the reporting period (Note 16)

On behalf of the Board of Directors on May 25, 2018:



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)

	2018	2017
For the three months ended March 31,	\$	\$
Expenses		
Exploration and evaluation expenditures (Note 13)	274,943	211,063
Salaries, director and management fees	84,824	72,832
Investor relations	55,475	29,558
Regulatory fees	8,247	5,722
Professional fees	5,590	4,950
Office and general	4,479	3,311
Rent	4,500	3,600
Foreign exchange loss	1,903	(2,216)
Share based payments (Note 11)	-	147,000
Total expenses	439,961	475,820
Other income		
Interest income	-	(2,827)
Net loss	439,961	472,993
Other comprehensive loss - items that will not subsequently reclassify into income		
Exchange on translation of foreign subsidiaries	(73)	(1,881)
Net comprehensive loss	439,888	471,112
Loss per share - basic and diluted	0.02	0.02
Weighted average number of common shares outstanding	25,310,445	22,574,704

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

PALAMINA CORP.

Unaudited Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Share Capital						
	Number of shares	Amount	Reserve for Share-based payments	Reserve for Warrants	Accumulated deficit	Reserve for foreign currency translation	Total
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
Share based payments	-	-	29,000	-	-	-	29,000
Net loss	-	-	-	-	(1,222,415)	-	(1,222,415)
Other comprehensive loss	-	-	-	-	-	(12,336)	(12,336)
Balance at December 31, 2017	22,574,704	\$ 3,120,457	\$ 280,000	\$ -	\$ (3,274,412)	\$ (18,404)	\$ 107,641
Issued pursuant to private placement	7,166,667	2,150,000	-	-	-	-	2,150,000
Warrants issued pursuant to private placement	-	(910,000)	-	910,000	-	-	-
Share issue costs	-	(38,093)	-	-	-	-	(38,093)
Issued pursuant to exercise of stock options	150,000	9,000	-	-	-	-	9,000
Transfer of reserve on exercise of stock options	-	6,000	(6,000)	-	-	-	-
Net loss	-	-	-	-	(439,961)	-	(439,961)
Other comprehensive loss	-	-	-	-	-	73	73
Balance at March 31, 2018	29,891,371	\$ 4,337,364	\$ 274,000	\$ 910,000	\$ (3,714,373)	\$ (18,331)	\$ 1,788,660

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)

	2018	2017
For the three months ended March 31,	\$	\$
Operating activities		
Net loss for the period	(439,961)	(472,993)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share based payments	-	147,000
Depreciation	2,898	380
Unrealized foreign exchange differences	(1,420)	1,504
Change in non-cash working capital		
Receivables	(4,234)	2,129
Prepaid expenses	11,141	(10,231)
Trade and other payables	(157,932)	(4,340)
Cash (used in) operating activities	(589,508)	(336,551)
Investing activities		
Purchase of equipment	(1,534)	(2,833)
Cash (used in) investing activities	(1,534)	(2,833)
Financing activities		
Issuance of share capital and warrants	2,150,000	-
Proceeds from exercise of options	9,000	-
Share issuance costs	(38,093)	-
Cash provided from financing activities	2,120,907	-
Increase (decrease) in cash and cash equivalents	1,529,865	(339,384)
Cash and cash equivalents, beginning of period	296,805	1,749,921
Cash and cash equivalents, end of period	1,826,670	1,410,537

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, 2018 and 2017
(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 Mexico through its wholly owned subsidiary, Palamina S.A. de C.V. (“Palamina Mexico”), and in Peru through its wholly owned subsidiary 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 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 an excess of current assets over current liabilities of \$1,742,465 at March 31, 2018; had not yet achieved profitable operations; had accumulated losses of \$3,714,373 at March 31, 2018; and expects to incur further losses in the development of its business. Management believes that Palamina has adequate cash resources to fund its operations over the next twelve months. However, additional financing is required 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.

These unaudited interim condensed 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 Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(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 25, 2018.

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, 2017 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, relate to the valuation of share-based payments, determination of functional currency, and tax provisions. 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, Mexico, and Peru and sources of equity financing.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(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

Adoption of New Standards

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 9 Financial Instruments ("IFRS 9") – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9's key changes include but are not limited to eliminating the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale and (ii) replacing IAS 39's incurred loss model with the expected credit loss model in evaluating certain financial assets for impairment. In implementing IFRS 9, the Company updated the financial instrument classifications within its accounting policy as follows:

	IAS 39	IFR 9
Cash & Cash Equivalents	Fair Value through profit or loss	Fair Value through profit or loss
Receivables	Loans and receivables, measured at amortized cost	Amortized cost
Trade and other payables	Financial liabilities at amortized cost	Financial liabilities at amortized cost

There was no material impact on the Company's condensed consolidated interim financial statements upon adoption of this standard.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(Expressed in Canadian dollars)

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, 2018 totaled \$1,788,660 (December 31, 2017 - \$107,641).

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, 2018.

The Company is not subject to any capital requirements imposed by lending institutions or regulatory body, other than the TSX Venture Exchange.

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.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(Expressed in Canadian dollars)

4. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)

March 31, 2018	Level One	Level Two	Level Three
	\$	\$	\$
Cash equivalents	-	1,600,000	-
December 31, 2017	Level One	Level Two	Level Three
	\$	\$	\$
Cash equivalents	-	-	-

As at March 31, 2018 and December 31, 2017, 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, 2018 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, 2018, the Company had current assets of \$1,851,659 (December 31, 2017 - \$328,701) including cash and cash equivalents of \$1,826,670 (December 31, 2017 - \$296,805) to settle current liabilities of \$109,194 (December 31, 2017 - \$267,126) resulting in working capital of \$1,742,465 (December 31, 2017 - \$61,575 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 March 31, 2018, the Company had cash and cash equivalents of \$1,826,670 (December 31, 2017 - \$296,805).

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(Expressed in Canadian dollars)

4. FAIR VALUE AND FINANCIAL RISK FACTORS (continued)

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 and silver 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, Mexican pesos, 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 three month period ended March 31, 2018 would have been approximately \$3,000 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, 2018 would have been approximately \$100 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 three month period ended March 31, 2018 would have been approximately \$500 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 March 31, 2018, 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.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(Expressed in Canadian dollars)

5. CASH AND CASH EQUIVALENTS

The balance at March 31, 2018 consists of cash on deposit with major Canadian, Mexican and Peruvian banks in general interest bearing accounts totaling \$226,670 (December 31, 2017 - \$296,805) and cashable guaranteed investment certificates with major Canadian banks of \$1,600,000 (December 31, 2017 - \$nil) for total cash and cash equivalents of \$1,826,670 (December 31, 2017 - \$296,805).

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, 2018	December 31, 2017
	\$	\$
HST receivable	8,186	4,754
Value-added taxes receivable	5,178	4,376
Other receivable	-	-
Total receivables	13,364	9,130

As at March 31, 2018, the total value-added taxes receivable is \$10,350 and a provision for non-collection of \$5,175 has been recorded. The Company has recorded a 50% provision of VAT based on historical trends. At March 31, 2018, the Company anticipates full recovery of the \$13,364 (December 31, 2017 - \$9,130). The Company holds no collateral for any receivable amounts outstanding as at March 31, 2018.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(Expressed in Canadian dollars)

7. EQUIPMENT

	Vehicles \$	Equipment \$	Total \$
Cost			
As at December 31, 2016	5,270	-	5,270
Additions	45,423	5,336	50,759
Foreign exchange translation	(1,607)	(176)	(1,783)
As at December 31, 2017	49,086	5,160	54,246
Additions	-	1,534	1,534
Foreign exchange translation	1,784	(271)	1,513
As at March 31, 2018	50,870	6,423	57,293
Accumulated depreciation			
As at December 31, 2016	1,098	-	1,098
Depreciation expense	6,670	732	7,402
Foreign exchange translation	(295)	(25)	(320)
As at December 31, 2017	7,473	707	8,180
Depreciation expense	2,541	357	2,898
Foreign exchange translation	460	(440)	20
As at March 31, 2018	10,474	624	11,098
Net book value			
As at December 31, 2016	4,172	-	4,172
As at December 31, 2017	41,613	4,453	46,066
As at March 31, 2018	40,396	5,799	46,195

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, 2018 \$	December 31, 2017 \$
Less than 1 month	21,353	11,704
Over 1 month	87,841	255,422
Total trade and other payables	109,194	267,126

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(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,	2018	2017
Short-term employee benefits	\$ 86,000	\$ 95,000
Share based payments – options	-	107,000
Total compensation to key management	\$ 86,000	\$ 202,000

At March 31, 2018, included in trade and other payables is \$30,000 (December 31, 2017 - \$142,000) 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, 2016 and December 31, 2017	22,574,704	3,120,457
Issued for cash pursuant to private placement of 7,166,667 units ⁽ⁱ⁾	7,166,667	2,150,000
Warrants issued ⁽ⁱ⁾	-	(910,000)
Share issue costs ⁽ⁱ⁾	-	(38,093)
Issued pursuant to exercise of stock options ⁽ⁱⁱ⁾	150,000	9,000
Transfer of reserve on exercise of stock options ⁽ⁱⁱ⁾	-	6,000
Balance – March 31, 2018	29,891,371	4,337,364

- (i) On February 26, 2018 the Company closed a private placement offering of 7,166,667 units at a purchase price of \$0.30 per unit, for aggregate gross proceeds of \$2,150,000. 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 until August 26, 2019. 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.
- (ii) On March 28, 2018 the Company issued 150,000 common shares pursuant to the exercise of stock options at a price of \$0.06.

PALAMINA CORP.
Notes to the Unaudited Interim Consolidated Financial Statements
Three Month Periods Ended March 31, 2018 and 2017
(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, 2018, the Company had 1,134,137 (December 31, 2017 – 2,470) options available for issuance under the Plan.

The continuity of outstanding stock options for the three month period ended March 31, 2018 and year ended December 31, 2017 is as follows:

	Number of stock options	Weighted average exercise price per share \$
Balance – December 31, 2016	1,275,000	0.12
Granted ⁽ⁱ⁾ & ⁽ⁱⁱ⁾	1,130,000	0.21
Expired	(150,000)	0.13
Balance – December 31, 2017	2,255,000	0.16
Exercised	(150,000)	0.06
Expired	(250,000)	0.17
Balance – March 31, 2018	1,855,000	0.17

- (i) 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.
- (ii) On November 1, 2017, the Company granted 220,000 options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at \$0.17 per common share. The options granted expire in 5 years. The resulting fair value of \$29,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 111%; a risk-free interest rate of 1.65% and an expected average life of 5 years. The options vested immediately.

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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	525,000	525,000	September 15, 2020	2.46
0.06	150,000	150,000	December 1, 2020	2.67
0.16	150,000	150,000	November 15, 2021	3.63
0.22	260,000	260,000	January 13, 2019	0.79
0.22	550,000	550,000	January 13, 2022	3.79
0.17	220,000	220,000	November 1, 2022	4.59
0.16	1,855,000	1,855,000		2.98

(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, 2018 and year ended December 31, 2017 is set out below:

	Amount
	\$
Balance – December 31, 2016	104,000
Stock-based compensation	176,000
Balance – December 31, 2017	280,000
Transfer of reserve on exercise of options	(6,000)
Balance – March 31, 2018	274,000

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12. RESERVE FOR WARRANTS

The following table reflects the continuity of warrants for the three month period ended March 31, 2018 and year ended December 31, 2017

	Number of Warrants	Amount \$
Balance – December 31, 2017	-	-
Share purchase warrants issued pursuant to private placement ⁽ⁱ⁾	7,166,667	910,000
Balance – March 31, 2018	7,166,667	910,000

- (i) The share purchase warrants issued pursuant to the private placement on February 26, 2018 are described in Note 10(i) above and have a fair value of \$910,000, which was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	1.74%	Expected volatility	130%
Dividend yield	nil	Expected life-units	1.5 years

Details of the warrants outstanding at March 31, 2018 are as follows:

Exercise price \$	Number and type of outstanding exercisable warrants	Expiry date	Remaining contractual life (years)
0.50	7,166,667 – Share Purchase Warrants	August 26, 2019	1.41

13. EXPLORATION AND EVALUATION EXPENDITURES

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

Three month period ended March 31,	2018	2017
Peru Properties	\$ 250,228	\$ 188,889
El Santuario Property	24,715	18,569
Gavilan Property	-	3,223
Chinipas Property	-	382
Exploration and evaluation expenditures	\$ 274,943	\$ 211,063

Peru Properties

Palamina Peru has made multiple mining concession applications covering approximately 39,000 hectares within the Department of Puno in southeast Peru, and the Department of Ica in the Peruvian coast south of Lima.

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13. EXPLORATION AND EVALUATION EXPENDITURES (continued)

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 December 31, 2017, Palamina Mexico submitted applications to drop the Gavilan concession located in the State of Queretaro, Mexico.

Chinipas Property

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

14. COMMITMENTS AND CONTINGENCIES

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties. The minimum expenditures to keep the properties in good standing through December 31, 2018 are approximately \$210,000.

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.

15. SEGMENTED INFORMATION

At March 31, 2018, 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, 2018	December 31, 2017
	\$	\$
Canada	1,737,036	151,630
Mexico	11,648	11,788
Peru	149,170	211,349
	1,897,854	374,767

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16. SUBSEQUENT EVENTS

On April 6, 2018, the Company granted 950,000 options to certain officers, directors and consultants of the Company under its stock option plan. All options are exercisable at \$0.39 per common share. The options granted expire in 3 and 5 years and vest immediately.