

PALAMINA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Palamina Corp.

We have audited the accompanying consolidated financial statements of Palamina Corp. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Palamina Corp. and its subsidiaries as at December 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Palamina Corp. for the year ended December 31, 2015, were audited by other auditors who expressed an unmodified opinion on those statements on April 21, 2016.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

TORONTO, Canada
April 7, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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



Andrew Thomson
President and Chief Executive Officer



Brian Jennings
Chief Financial Officer

PALAMINA CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

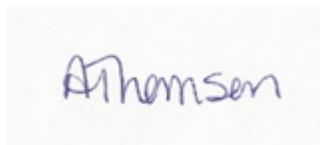
<i>As at,</i>	December 31, 2016 \$	December 31, 2015 \$
ASSETS		
Current		
Cash and cash equivalents (Note 6)	1,749,921	1,564,546
Receivables (Note 7)	12,669	26,511
Prepaid expenses	8,528	2,491
Total current assets	1,771,118	1,593,548
Equipment (Note 8)	4,172	-
Total assets	1,775,290	1,593,548
LIABILITIES AND EQUITY		
Current		
Trade and other payables (Notes 9 10)	137,786	132,821
Total liabilities	137,786	132,821
Equity		
Share capital (Note 11)	3,120,457	1,943,101
Reserve for share-based payments (Note 12)	104,000	84,000
Accumulated deficit	(1,579,004)	(565,550)
Reserve for foreign currency translation	(7,949)	(824)
Total equity	1,637,504	1,460,727
Total liabilities and equity	1,775,290	1,593,548

Nature of Operations (Note 1)

Commitments and Contingencies (Note 14)

Subsequent Events (Note 17)

On behalf of the Board of Directors on April 7, 2017:



Andrew Thomson
Director



Darin Wagner
Director

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

PALAMINA CORP.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	2016	2015
For the years ended December 31,	\$	\$
Expenses		
Exploration and evaluation expenditures (Note 13)	462,306	218,264
Salaries, director and management fees	336,191	196,108
Investor relations	70,009	30,551
Professional fees	65,389	115,967
Regulatory fees	26,279	30,008
Office and general	23,069	9,566
Share based payments (Note 12)	20,000	84,000
Rent	15,150	8,561
Foreign exchange loss (gain)	2,301	(735)
Total expenses	1,020,694	692,290
Other income		
Interest income	(7,240)	(7,974)
Net loss	1,013,454	684,316
Other Comprehensive Loss - items that will not subsequently reclassify into income		
Exchange loss on translation of foreign subsidiary	7,125	824
Net comprehensive loss	1,020,579	685,140
Loss per share - basic and diluted	0.06	0.05
Weighted average number of common shares outstanding (Note 1)	17,765,961	14,574,704

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

PALAMINA CORP.

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					
Balance at December 31, 2014	-	\$ -	\$ -	\$ -	\$ (10,000)	\$ -	\$ (10,000)
Net loss	-	-	-	(565,550)	(118,766)	-	(684,316)
Share based payments	-	-	84,000	-	-	-	84,000
Other comprehensive loss	-	-	-	-	-	(824)	(824)
Net investment by Soltoro	-	-	-	-	128,766	-	128,766
Issued pursuant to the Arrangement (Note 1)	14,574,704	1,943,101	-	-	-	-	1,943,101
Balance at December 31, 2015	14,574,704	\$ 1,943,101	\$ 84,000	\$ (565,550)	\$ -	\$ (824)	\$ 1,460,727
Issuance of share capital, net of issue costs (Note 11)	8,000,000	1,177,356	-	-	-	-	1,177,356
Share based payments	-	-	20,000	-	-	-	20,000
Net loss	-	-	-	(1,013,454)	-	-	(1,013,454)
Other comprehensive loss	-	-	-	-	-	(7,125)	(7,125)
Balance at December 31, 2016	22,574,704	\$ 3,120,457	\$ 104,000	\$ (1,579,004)	\$ -	\$ (7,949)	\$ 1,637,504

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

PALAMINA CORP.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	2016	2015
For the years ended December 31,	\$	\$
Operating activities		
Net loss for the year	(1,013,454)	(684,316)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share based payments	20,000	84,000
Amortization	1,199	-
Unrealized foreign exchange differences	(6,739)	(824)
Change in non-cash working capital		
Receivables	13,842	(26,511)
Prepaid expenses	(6,037)	(2,491)
Trade and other payables	4,965	122,821
Cash used in operating activities	(986,224)	(507,321)
Investing activities		
Purchase of equipment	(5,757)	-
Cash used in investing activities	(5,757)	-
Financing activities		
Issuance of share capital	1,200,000	-
Share issue costs	(22,644)	-
Funds received pursuant to the Arrangement (Note 1)	-	1,943,101
Increase in equity in net assets	-	128,766
Cash provided from financing activities	1,177,356	2,071,867
Increase in cash and cash equivalents	185,375	1,564,546
Cash and cash equivalents, beginning of year	1,564,546	-
Cash and cash equivalents, end of year	1,749,921	1,564,546

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

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”). Subsequent to year end (see Note 17), Palamina incorporated a wholly owned subsidiary in Peru (“Palamina SAC”) and acquired certain mining claim applications. Palamina was incorporated on April 23, 2015 under the *Business Corporations Act* (Ontario). The Company’s head office is located at 10 King Street East, Suite 501, Toronto, Ontario, M5C 1C3.

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

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 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.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS (continued)

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.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

These consolidated financial statements were approved and authorized by the Board of Directors of the Company on April 7, 2017.

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

Presentation of the Consolidated Statements of Financial Position

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 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 consolidated statements of loss and comprehensive loss for the year ended December 31, 2015 reflect the amounts allocated from Soltoro from January 1, 2015 to June 9, 2015 (the “Soltoro Expenditures”) and amounts recorded by Palamina subsequent to June 9, 2015 (the “Palamina Expenditures”) with respect to the Mexico Properties.

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

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

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

Presentation of the Consolidated Statements of Changes in Equity

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

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 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 judgments made by management in the preparation of these financial statements are outlined below:

Share-based payment transactions

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

Functional Currency

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

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

Tax Provisions

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

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 adoption of the standard has not had an impact on the Company's financial statements.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

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

New standards and interpretations to be adopted in future

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

- IFRS 9 *‘Financial Instruments: Classification and Measurement’* – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company has not yet determined the impact of the amendments on the Company’s financial statements.
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognized in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

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

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

3.2 Mineral properties

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

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

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is expensed as incurred. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2016 and 2015 there were no AROs.

3.4 Taxation

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

Current income tax

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

Deferred income tax

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Taxation (continued)

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

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

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

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

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

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

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

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method, which assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period.

3.6 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or fair value through profit or loss (“FVTPL”).

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

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

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. The Company’s cash is classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

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

PALAMINA CORP.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial liabilities

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

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

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive loss. At December 31, 2016 and 2015, the Company has not classified any financial liabilities as FVTPL.

3.8 Impairment of non-financial assets

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

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

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

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

3.9 Cash and cash equivalents

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Provisions

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

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

3.11 Related party transactions

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

3.12 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Equipment

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

Vehicle	20% declining
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4. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

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

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

The Company considers its capital to be equity, comprising share capital, reserve accounts, accumulated deficit and reserve for foreign currency translation which at December 31, 2016 totaled \$1,637,504 (December 31, 2015 - \$1,460,727).

Palamina manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company.

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

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

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5. FAIR VALUE AND FINANCIAL RISK FACTORS

Fair value of financial instruments

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

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

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

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

As at December 31, 2016 and 2015, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to their short term nature.

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents consist of cash on hand and on deposit with reputable financial institutions and management believe the risk of loss is minimal. The Company's maximum exposure to credit risk as at December 31, 2016 is the carrying value of cash and cash equivalents.

Liquidity risk

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

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

Foreign currency risk

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

Price risk

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

Sensitivity analysis

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

- (i) Interest rate risk is limited to cash and cash equivalents balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company's subsidiary holds financial assets and liabilities in US dollars and Mexican pesos that give rise to foreign exchange risk. If the US dollar rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, net loss for the year ended December 31, 2016 would have been approximately \$500 higher/lower. If the Mexican peso rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the year ended December 31, 2016 would have been approximately \$100 higher/lower.

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5. 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 December 31, 2016, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

6. CASH AND CASH EQUIVALENTS

The balance at December 31, 2016 consists of cash on deposit with major Canadian and Mexican banks in general interest bearing accounts totaling \$146,637 (December 31, 2015 - \$57,385) and cashable guaranteed investment certificates with major Canadian banks of \$1,603,284 (December 31, 2015 - \$1,507,161) for total cash and cash equivalents of \$1,749,921 (December 31, 2015 - \$1,564,546).

7. 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,	
	December 31, 2016 \$	December 31, 2015 \$
HST receivable	7,617	23,689
Mexican value-added taxes receivable	5,021	2,410
Other receivable	31	412
Total receivables	12,669	26,511

As at December 31, 2016, the total Mexican value-added taxes receivable is \$10,042 and a provision for non-collection of \$5,021 has been recorded. The Company has recorded a full provision for VAT arising during 2015 and a 50% provision of VAT arising during 2016 based on historical trends.

At December 31, 2016, the Company anticipates full recovery of the \$12,669 (December 31, 2015 - \$26,511). The Company holds no collateral for any receivable amounts outstanding as at December 31, 2016.

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8. EQUIPMENT

	Vehicles \$
Cost	
As at December 31, 2014 and 2015	-
Additions	5,757
Foreign exchange translation	(487)
As at December 31, 2016	5,270
Accumulated depreciation	
As at December 31, 2014 and 2015	-
Depreciation expense	1,199
Foreign exchange translation	(101)
As at December 31, 2016	1,098
Net book value	
As at December 31, 2015	-
As at December 31, 2016	4,172

9. TRADE AND OTHER PAYABLES

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

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

	As at,	
	December 31, 2016	December 31, 2015
	\$	\$
Less than 1 month	61,988	102,821
Over 1 month	75,798	30,000
Total trade and other payables	137,786	132,821

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10. RELATED PARTIES AND KEY MANAGEMENT

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

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

At December 31, 2016, included in trade and other payables is \$57,838 (December 31, 2015 - \$50,177) due to these key management personnel. These amounts are due on demand, unsecured and non-interest bearing.

11. SHARE CAPITAL

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

	Number of Shares	Amount \$
Balance – December 31, 2014	-	-
Issued pursuant to the Arrangement ((i), (ii) and Note 1)	14,574,704	1,943,101
Balance – December 31, 2015	14,574,704	1,943,101
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)
Balance – December 31, 2016	22,574,704	3,120,457

- (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 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.

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12. STOCK OPTIONS

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

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

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

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

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

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

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12. STOCK OPTIONS (continued)

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

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

Exercise price ⁽ⁱ⁾	Number of options		Expiry date	Remaining contractual life (years) ⁽ⁱ⁾
	Outstanding	Exercisable		
\$				
0.13	825,000	825,000	September 15, 2020	3.71
0.06	300,000	300,000	December 1, 2020	3.92
0.16	150,000	150,000	November 15, 2021	4.87
0.12	1,275,000	1,275,000		3.89

(i) Total represents weighted average.

A summary of the changes in the Company's reserve for share-based payments for the years ended December 31, 2016 and 2015 is set out below:

	Amount \$
Balance – December 31, 2014	-
Stock-based compensation	84,000
Balance – December 31, 2015	84,000
Stock-based compensation	20,000
Balance – December 31, 2016	104,000

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13. EXPLORATION AND EVALUATION EXPENDITURES

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

Year ended December 31,	2016	2015
El Santuario Property	\$ 243,127	\$ 189,721
Peru Properties	171,262	-
Gavilan Property	15,893	24,651
Chinipas Property	2,746	3,892
Other property investigation	29,278	-
Exploration and evaluation expenditures	\$ 462,306	\$ 218,264

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.

Peru Properties

Subsequent to December 31, 2016 (see Note 17) Palamina SAC acquired certain mining claim applications within the department of Puno in southeast Peru, north of Lake Titicaca.

Gavilan Property

Subsequent to December 31, 2016 Palamina Mexico submitted applications to drop the Gavilan concession located in the State of Queretaro, Mexico.

Chinipas Property

Subsequent to December 31, 2016 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, 2017 are approximately \$26,000.

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.

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15. SEGMENTED INFORMATION

At December 31, 2016, 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,	December 31, 2016 \$	December 31, 2015 \$
Canada	1,763,472	1,577,277
Mexico	11,818	16,271
	1,775,290	1,593,548

16. INCOME TAXES

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Combined statutory income tax rate	26.5%	26.5%
Recovery of income taxes computed at statutory rates	(269,000)	(150,000)
Difference in foreign jurisdiction tax rates	(43,000)	(2,000)
Non-deductible expenses and other	144,000	24,000
Tax benefits of losses and temporary differences not recognized	168,000	128,000
Income tax provision	-	-

The Canadian statutory income tax rate of 26.5% (2015 - 26.5%) is comprised of the federal income tax rate at approximately 15.0% (2015 - 15.0%) and the provincial income tax rate of approximately 11.5% (2015 - 11.5%). The Mexican statutory income tax rate is approximately 30% (2015 - 30%).

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16. INCOME TAXES (continued)

The components of the deductible temporary differences at December 31, 2016 and 2015 are as follows:

	2016	2015
<i>Deferred tax assets</i>	\$	\$
Deferred exploration expenditures	110,000	36,000
Non-capital losses carried forward	975,000	92,000
Deductible share issue costs	18,000	-
	1,103,000	128,000

The Company has tax loss carryforward balances that have not been recognized in Canada of \$808,000 (2015 - \$313,000) and in Mexico of \$152,000 (Mexican Peso \$2,335,000) (2015 - \$30,000, Mexican peso \$373,000). No deferred tax asset has been recognized as it is not probable that they will be utilized. As at December 31, 2016, the non-capital loss carry forwards expire as follows:

	Mexico		Canada
	\$		\$
2025	30,000	2035	313,000
2026	122,000	2036	495,000
	152,000		808,000

17. SUBSEQUENT EVENTS

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.

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