

# **PALAMINA CORP.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2022 AND 2021**

(Expressed in Canadian Dollars)  
(Unaudited)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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.

*(signed) "Andrew Thomson"*  
Andrew Thomson  
President and Chief Executive Officer

*(signed) "Michael Farrant"*  
Michael Farrant  
Chief Financial Officer

Toronto, Canada  
November 29, 2022

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### NOTICE TO READER

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Canadian Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of management. The condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2022 and 2021 have not been reviewed by the Company's auditor.

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# PALAMINA CORP.

## Condensed Consolidated Interim Statements of Financial Position

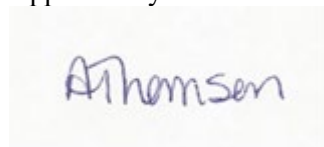
As at

(Unaudited)

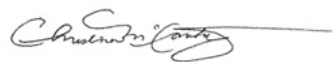
(Expressed in Canadian Dollars)		September 30, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	Note 5	\$ 398,050	\$ 2,233,309
Receivables	Note 6	23,145	60,800
Prepaid expenses	Note 7	128,224	238,427
		<b>549,419</b>	<b>2,532,536</b>
<b>Non-current assets</b>			
Equipment	Note 8	28,803	26,457
Investment in associate	Note 17	47,620	105,065
<b>Total Assets</b>		<b>\$ 625,842</b>	<b>\$ 2,664,058</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	Notes 9, 10	\$ 322,942	\$ 522,050
<b>Total Liabilities</b>		<b>322,942</b>	<b>522,050</b>
<b>Shareholders' Equity</b>			
Share capital	Note 11	9,457,211	9,457,211
Reserve for share-based payments	Note 12	1,543,700	1,518,000
Reserve for warrants	Note 13	3,631,775	3,631,775
Deficit		(14,303,705)	(12,449,271)
Reserve for foreign currency translation		(26,081)	(15,707)
<b>Total Shareholders' Equity</b>		<b>302,900</b>	<b>2,142,008</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 625,842</b>	<b>\$ 2,664,058</b>

*Nature of Operations and Going Concern (Note 1)*  
*Commitments and Contingencies (Notes 15 and 16)*

Approved by the Board of Directors and authorized on November 29, 2022:



Andrew Thomson  
Director



Christina McCarthy  
Director

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

# PALAMINA CORP.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the periods ended

(Unaudited)

(Expressed in Canadian Dollars)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2022	2021	2022	2021	
<b>Expenses</b>					
Exploration and evaluation expenditures	Notes 10, 14	\$ 311,929	\$ 451,090	\$ 1,283,099	\$ 791,631
Salaries, director and management fees	Note 10	70,015	77,709	222,599	193,412
Share-based compensation	Notes 10, 12	1,000	470,000	25,700	496,000
Investor relations		45,273	73,072	120,257	80,653
Shareholder costs and filing fees		11,482	40,097	28,760	57,965
Professional fees		7,867	42,529	46,047	63,967
Office and general		9,918	8,623	36,829	27,990
Depreciation	Note 8	2,195	1,246	5,970	3,047
<b>Total expenses</b>		<b>459,679</b>	<b>1,164,366</b>	<b>1,769,261</b>	<b>1,714,665</b>
<b>Other (income) expense</b>					
Bank charges		764	952	1,752	2,148
Foreign exchange loss		1,059	2,555	3,545	2,544
Interest income		(1,594)	(3,608)	(5,884)	(3,608)
Advance royalty	Note 17	(64,685)	(31,137)	(64,685)	(31,137)
Share of loss of associate	Note 17	45,380	74,155	150,445	174,155
<b>Net loss for the period</b>		<b>440,603</b>	<b>1,207,283</b>	<b>1,854,434</b>	<b>1,858,767</b>
<b>Other comprehensive loss - items that will Not subsequently reclassify into income</b>					
Exchange on translation of foreign subsidiaries		(2,603)	(1,683)	10,374	(3,527)
<b>Net comprehensive loss for the period</b>		<b>\$ 438,000</b>	<b>\$ 1,205,600</b>	<b>\$ 1,864,808</b>	<b>\$ 1,855,240</b>
<b>Net Loss per share</b>					
Basic and diluted loss per share		\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.03
<b>Weighted average number of common shares outstanding</b>					
- Basic and diluted		65,284,836	65,284,836	65,284,836	56,760,245

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

## PALAMINA CORP.

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

(Unaudited)

(Expressed in Canadian Dollars)	Share Capital		Reserve for Share-based payments	Reserve for Warrants	Deficit	Reserve for foreign currency translation	Total
	Number of shares	Amount					
<b>Balance at December 31, 2020</b>	<b>45,284,836</b>	<b>\$ 6,480,018</b>	<b>\$ 1,018,000</b>	<b>\$ 1,684,775</b>	<b>\$ (9,385,170)</b>	<b>\$ (11,283)</b>	<b>\$ (213,660)</b>
Issued pursuant to private placement	20,000,000	5,000,000	-	-	-	-	5,000,000
Warrants issued pursuant to private placement	-	(1,935,000)	-	1,935,000	-	-	-
Broker warrants issued pursuant to private placement	-	(12,000)	-	12,000	-	-	-
Share issue costs	-	(75,807)	-	-	-	-	(75,807)
Share-based compensation	-	-	496,000	-	-	-	496,000
Net loss for the period	-	-	-	-	(1,858,767)	-	(1,858,767)
Other comprehensive income	-	-	-	-	-	3,527	3,527
<b>Balance at September 30, 2021</b>	<b>65,284,836</b>	<b>9,457,211</b>	<b>1,514,000</b>	<b>3,631,775</b>	<b>(11,243,937)</b>	<b>(7,756)</b>	<b>3,351,293</b>
Share-based compensation	-	-	4,000	-	-	-	4,000
Net loss for the period	-	-	-	-	(1,205,334)	-	(1,205,334)
Other comprehensive loss	-	-	-	-	-	(7,951)	(7,951)
<b>Balance at December 31, 2021</b>	<b>65,284,836</b>	<b>9,457,211</b>	<b>1,518,000</b>	<b>3,631,775</b>	<b>(12,449,271)</b>	<b>(15,707)</b>	<b>2,142,008</b>
Share-based compensation	-	-	25,700	-	-	-	25,700
Net loss for the period	-	-	-	-	(1,854,434)	-	(1,854,434)
Other comprehensive loss	-	-	-	-	-	(10,374)	(10,374)
<b>Balance at September 30, 2022</b>	<b>65,284,836</b>	<b>\$ 9,457,211</b>	<b>\$ 1,543,700</b>	<b>\$ 3,631,775</b>	<b>\$ (14,303,705)</b>	<b>\$ (26,081)</b>	<b>\$ 302,900</b>

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

# PALAMINA CORP.

## Condensed Consolidated Interim Statements of Cash Flows For the periods ended (Unaudited)

(Expressed in Canadian Dollars)	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities</b>		
Net loss for the period	\$ (1,854,434)	\$ (1,858,767)
Adjustments not affecting cash:		
Share-based compensation	Note 12 25,700	496,000
Depreciation	Note 8 5,970	3,047
Unrealized foreign exchange differences	(12,611)	3,293
Shares received as payment from investment in associate	Note 17 -	(42,000)
Share of loss of associate	Note 17 150,445	174,155
Operating cash flows before changes in non-cash working capital:	(1,684,930)	(1,224,272)
Changes in non-cash working capital:		
Receivables	37,655	(6,268)
Prepaid expenses	110,203	(328,970)
Accounts payable and accrued liabilities	(199,108)	(225,729)
Cash used in operating activities	(1,736,180)	(1,785,239)
<b>Cash flows from investing activities</b>		
Purchase of equipment	Note 8 (6,079)	(15,426)
Investment in associate	Note 17 (93,000)	-
Cash used in investing activities	(99,079)	(15,426)
<b>Cash flows from financing activities</b>		
Proceeds from private placement	Note 11 -	5,000,000
Share issuance costs	Note 11 -	(75,807)
Cash provided by financing activities	-	4,924,193
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(1,835,259)</b>	<b>3,123,528</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,233,309</b>	<b>61,713</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 398,050</b>	<b>\$ 3,185,241</b>

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

## **PALAMINA CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

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

Palamina was incorporated on April 23, 2015 under the *Business Corporations Act* (Ontario). The Company is listed on the TSX Venture Exchange (“TSX-V”) having the symbol PA and on the OTCQB under the symbol PLMNF. The Company’s head office is located at 145 King Street West, Suite 2870 Toronto, Ontario M5H 1J8.

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. 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 consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations. Changes in future conditions could require material write downs of the carrying values.

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. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

The Company is at an early stage of development and, as is common with many exploration companies, it relies on financings to fund its exploration and acquisition activities. The Company had a working capital surplus at September 30, 2022 of \$226,477 (December 31, 2021 - \$2,010,486); had not yet achieved profitable operations; had accumulated losses of \$14,303,705 at September 30, 2022 (December 31, 2021 - \$12,449,271); and expects to incur further losses in the development of its business. Palamina does not have adequate cash resources to fund its operations over the next twelve months and will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. There can be no certainty as to the ability of the Company to raise sufficient additional financing in order to continue to operate, and accordingly, there is a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

## **PALAMINA CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

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## **2. BASIS OF PREPARATION**

### **2.1 Statement of compliance**

These unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and 2021 (the “Financial Statements”) have been prepared in accordance with International Accounting Standards (“IAS”) 34 “*Interim Financial Reporting*” (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and include interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These Financial Statements were approved and authorized for issue by the Board of Directors of the Company on November 29, 2022.

### **2.2 Basis of presentation**

These 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, 2021 annual financial statements.

Certain prior year amounts have been reclassified to conform to current year presentation.

### **2.3 Use of management estimates, judgments and measurement uncertainty**

The preparation of these Financial Statements requires management to make judgments 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 judgments 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 judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates and judgments, relate to the valuation of share-based payments, determination of functional currency, tax provisions, determination of significant influence and impairment of investment in associate, and contingencies.

The significant estimates and judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual financial statements as at and for the year ended December 31, 2021.

### **2.4 COVID-19**

In March 2022, the novel strain of coronavirus (“COVID-19”) outbreak was labelled a pandemic by the World Health Organization. During fiscal 2021, attempts at containment of COVID-19 resulted in decreased economic activity, which has adversely affected the broader global economy. During fiscal 2021 and 2022, the Company implemented a COVID-19 policy drawing on industry specific guidelines set out by federal and provincial governments, working in conjunction with local health authorities to safeguard the health of its employees and the communities in which the Company operates. The Company has not been materially impacted by the presence of COVID-19.



## **PALAMINA CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

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## **2. BASIS OF PREPARATION (Continued)**

### **2.5 New accounting policies**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded. The impact of the pronouncements noted below are currently being assessed by the Company.

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

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

IAS 1 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

## **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 September 30, 2022 totaled \$302,900 (December 31, 2021 - \$2,142,008).

## **PALAMINA CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

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#### **3. CAPITAL MANAGEMENT (Continued)**

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 period ended September 30, 2022.

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

#### **4. FINANCIAL INSTRUMENTS**

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. The Company does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up to date market information. A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

##### **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.

##### **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.

##### **Interest rate risk**

The Company has cash and cash equivalent 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 its investments to ensure that it is satisfied with the credit ratings of the investments. As at September 30, 2022, the Company had cash and cash equivalents of \$398,050 (December 31, 2021 - \$2,233,309).

##### **Foreign currency risk**

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

## **PALAMINA CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### **4. FINANCIAL INSTRUMENTS (Continued)**

##### **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. Management believes the risk of loss is minimal. The Company's maximum exposure to credit risk as at September 30, 2022 is the carrying value of cash and cash equivalents and receivables.

##### **Liquidity risk**

The Company's approach to managing liquidity risk is to endeavor to it have sufficient liquidity to meet liabilities when due. As at September 30, 2022, the Company had current assets of \$549,419 (December 31, 2021 - \$2,532,536) including cash and cash equivalents of \$398,050 (December 31, 2021 - \$2,233,309) to settle current liabilities of \$322,942 (December 31, 2021 - \$522,050) resulting in a working capital surplus at September 30, 2022 of \$226,477 (December 31, 2021 - \$2,010,486).

The Company's financial assets and liabilities as at September 30, 2022 and December 31, 2021 were as follows:

	<b>Amortized Cost</b>	<b>FVPL</b>	<b>Total</b>
<b>December 31, 2021</b>			
Financial assets			
Cash	\$ 2,233,309	\$ -	\$ 2,233,309
Financial liabilities			
Accounts payable and accrued liabilities	\$ 522,050	\$ -	\$ 522,050
<b>September 30, 2022</b>			
Financial assets			
Cash	\$ 398,050	\$ -	\$ 398,050
Financial liabilities			
Accounts payable and accrued liabilities	\$ 322,942	\$ -	\$ 322,942

The fair values of these financial instruments approximate their carrying values because of their short- term nature.

##### **Sensitivity analysis**

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

- (i) Interest rate risk is limited to cash and cash equivalents balances, primarily held in Canadian and US dollars in Canada.
- (ii) The Company's subsidiaries hold financial assets and liabilities in US dollars and Peruvian 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 comprehensive loss for the nine months ended September 30, 2022 would have been approximately \$1,000 higher/lower. If the Peruvian nuevo sole rose or fell in relation to the Canadian dollar by 5% with all other variables held constant, accumulated other comprehensive loss for the nine months ended September 30, 2022 would have been approximately \$100 higher/lower.

## **PALAMINA CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

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#### **4. FINANCIAL INSTRUMENTS (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 September 30, 2022, 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.

#### **5. CASH AND CASH EQUIVALENTS**

The balance at September 30, 2022 consists of cash on deposit with major Canadian and Peruvian banks in general interest-bearing accounts totaling \$398,050 (December 31, 2021 - \$233,309) and cashable guaranteed investment certificates with major Canadian banks of \$nil (December 31, 2021 - \$2,000,000) for total cash and cash equivalents of \$398,050 (December 31, 2021 - \$2,233,309).

#### **6. RECEIVABLES**

The Company's receivables arise primarily from harmonized sales tax ("HST") due from the Canadian government and amounts owing from Windshear Gold Corp. ("Windshear"), the Company's associate, which are denominated in U.S. dollars.

	<b>September 30, 2022</b>	December 31, 2021
HST receivable	\$ 7,199	\$ 34,890
Due from associate (Note 10)	15,946	25,910
	<b>\$ 23,145</b>	<b>\$ 60,800</b>

As at September 30, 2022, the Company anticipates full recovery of the \$23,145 (December 31, 2021 - \$60,800). The Company holds no collateral for any receivable amounts outstanding as at September 30, 2022.

#### **7. PREPAID EXPENSES**

On June 10, 2021 Palamina entered into a services agreement with Goldspot Discoveries Corp. ("Goldspot"). The service agreement provided for a pre-payment of \$350,000 for strategic technical services to be provided by Goldspot to Palamina over a 12-month period. During the three months ended September 30, 2022, \$nil (2021 - \$34,905) in consulting services were incurred. During the nine months ended September 30, 2022, \$108,575 (2021 - \$34,905) in consulting services were incurred.

The prepaid balance as at September 30, 2022 is comprised of \$120,026 (December 31, 2021 - \$228,601) in advances to Goldspot as well as other advance fees and deposits amounting to \$8,198 (December 31, 2021 - \$9,826).

**PALAMINA CORP.****Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

**8. EQUIPMENT**

	Equipment	Total
<b>Cost</b>		
<b>As at December 31, 2021</b>	<b>\$ 42,727</b>	<b>\$ 42,727</b>
Additions	6,079	6,079
Foreign exchange translation	3,970	3,970
<b>As at September 30, 2022</b>	<b>52,776</b>	<b>52,776</b>
<b>Accumulated depreciation</b>		
<b>As at December 31, 2021</b>	<b>16,270</b>	<b>16,270</b>
Depreciation expense	5,970	5,970
Foreign exchange translation	1,733	1,733
<b>As at September 30, 2022</b>	<b>23,973</b>	<b>23,973</b>
<b>Net book value - September 30, 2022</b>	<b>\$ 28,803</b>	<b>\$ 28,803</b>
<b>Cost</b>		
<b>As at December 31, 2020</b>	<b>\$ 19,673</b>	<b>\$ 19,673</b>
Additions	22,870	22,870
Foreign exchange translation	184	184
<b>As at December 31, 2021</b>	<b>42,727</b>	<b>42,727</b>
<b>Accumulated depreciation</b>		
<b>As at December 31, 2020</b>	<b>11,646</b>	<b>11,646</b>
Depreciation expense	4,620	4,620
Foreign exchange translation	4	4
<b>As at December 31, 2021</b>	<b>16,270</b>	<b>16,270</b>
<b>Net book value – December 31, 2021</b>	<b>\$ 26,457</b>	<b>\$ 26,457</b>

All equipment is located in Peru and owned by Palamina Peru.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities 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 accounts payable and accrued liabilities:

	September 30, 2022	December 31, 2021
Less than 1 month	\$ 695	\$ 152,566
Over 1 month	322,247	369,484
<b>Total trade and other payables</b>	<b>\$ 322,942</b>	<b>\$ 522,050</b>

## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

##### *Key Management Compensation*

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. Current key management of Palamina includes the Company's directors and officers.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Management fees – President and CEO	\$ 43,750	\$ 43,750	\$ 131,250	\$ 94,792
Management fees - CFO	16,250	16,250	48,750	48,750
Directors' fees	13,875	13,875	41,625	41,625
Total fees paid to management and directors	73,875	73,875	221,625	185,167
Share-based payments	-	252,000	-	252,000
	\$ 73,875	\$ 325,875	\$ 221,625	\$ 437,167

##### *Related Party Transactions*

On June 18, 2021, directors, officers and other related parties subscribed for 9,919,000 units at a price of \$0.25 per unit, as part of the 20,000,000 unit non-brokered private placement (see Note 11).

On August 25, 2022, the Company received a payment of US\$79,667 from its associate Winshear. US\$50,000 was in respect of the 2022 advance royalty payment due September 19, 2022 and US\$29,667 in respect of the reimbursement of owing to the Company for the period January 1 to June 30, 2022.

At September 30, 2022, \$41,625 (December 31, 2021 - \$15,280) included in accounts payable and accrued liabilities was owing to related parties. These amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

As at September 30, 2022, \$15,946 (US\$11,633) (December 31, 2021 - \$25,910 (US\$20,438)) included in receivables is due from the Company's associate Winshear. The balance is unsecured, non-interest bearing and due on demand.

#### 11. SHARE CAPITAL

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

b) Issued and outstanding:

	Note8(b)	Number of Shares	Amount
<b>Balance at December 31, 2020</b>		<b>45,284,836</b>	<b>\$ 6,480,018</b>
Private placement of \$0.25 units – June 18, 2021	(i)	20,000,000	5,000,000
Less: warrants valuation	(i)	-	(1,935,000)
Share issue costs – cash	(i)	-	(75,807)
Share issue costs – fair value of warrants	(i)	-	(12,000)
<b>Balance at December 31, 2021 and September 30, 2022</b>		<b>65,284,836</b>	<b>\$ 9,457,211</b>

## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 11. SHARE CAPITAL (Continued)

- (i) On June 18, 2021, the Company closed a non-brokered private placement offering of 20,000,000 units at a price of \$0.25 per unit, for aggregate gross proceeds of \$5,000,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable to acquire one common share at a price of \$0.40 for 24 months until June 18, 2023.

The Company paid a cash finder's fee of \$12,000 and issued 48,000 finder's warrants equal to six percent of the aggregate number of units sold under the offering attributable to the finder. Each finder warrant shall be exercisable to acquire one unit of the Company for a period of two years from the closing date at an exercise price of \$0.25 per unit. The issue date fair value of the warrants was estimated to be \$12,000 based on their Black-Scholes value. The Company also incurred \$63,807 of other share issue costs associated with the offering.

#### 12. STOCK OPTIONS

On September 15, 2015, the Company adopted a stock option plan (the "Plan") under which the Board of Directors of the Company may grant options to directors, officers, employees and consultants to purchase common shares of the Company. The maximum number of common shares reserved for issuance 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 September 30, 2022, the Company had 1,893,483 (December 31, 2021 – 1,693,483) options available for issuance under the Plan.

The following table reflects the continuity of stock options for the nine months ended September 30, 2022 and year ended December 31, 2021:

	Number of Stock Options	Weighted Average Exercise Price
<b>Balance – December 31, 2020</b>	<b>3,770,000</b>	<b>\$0.29</b>
Granted <sup>(i), (ii), (iii)</sup>	1,990,000	\$0.32
Expired	(925,000)	\$0.29
<b>Balance – December 31, 2021</b>	<b>4,835,000</b>	<b>\$0.30</b>
Granted <sup>(iv)</sup>	250,000	\$0.17
Expired	(450,000)	\$0.22
<b>Balance – September 30, 2022</b>	<b>4,635,000</b>	<b>\$0.30</b>

#### Stock Option Grants

- (i) On June 10, 2021, the Company granted options to purchase up to 150,000 common shares of the Company to a consultant at an exercise price of \$0.25 per share for a period of two years. The options vested immediately. The Company recorded \$26,000 of share-based compensation, being the entire grant date fair value.

## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 12. STOCK OPTIONS (Continued)

- (ii) On July 16, 2021, the Company granted options to purchase up to 1,790,000 common shares of the Company to certain officers, directors and consultants at an exercise price of \$0.33 per share. The options granted to officers and directors expire in five years, and the options granted to consultants expire in three years. The options vested immediately. The Company recorded \$216,000 and \$254,000 of share-based compensation with respect to the three-year and five-year options, respectively, being the entire grant date fair value.
- (iii) On October 29, 2021, the Company's granted options to purchase up to 50,000 common shares of the Company to a consultant at an exercise price of \$0.28 per share for a period of three years. The options vest half on February 2, 2022 and half on February 2, 2023. The grant date fair value was estimated to be \$10,000 using the Black-Scholes option pricing model with the assumptions noted below. The Company recorded share-based compensation of \$1,000 and \$4,700 for the three and nine months ended September 30, 2022, respectively, based on the vested portion during these periods.
- (iv) On April 8, 2022, the Company granted options to purchase up to 250,000 common shares of the Company to consultants at an exercise price of \$0.17 per share for a period of three years. The options vested immediately. The Company recorded \$21,000 of share-based compensation, being the entire grant date fair value.

The fair value of the options in the above noted grants, are estimated on the dates of grant using the Black-Scholes option pricing model with the following assumptions:

Grant Date	Stock Price	Exercise Price	Risk-free Interest Rate	Expected Stock Price Volatility	Expected Life (in years)	Expected Dividend Rate	Expected Forfeiture Rate
June 10, 2021	\$0.26	\$0.25	0.31%	134%	2	0%	0%
July 16, 2021	\$0.33	\$0.33	0.62%	128%	3	0%	0%
July 16, 2021	\$0.33	\$0.33	0.87%	129%	5	0%	0%
October 29, 2021	\$0.28	\$0.28	1.50%	126%	3	0%	0%
April 8, 2022	\$0.165	\$0.17	2.47%	104%	3	0%	0%

#### Stock Option Expires

During the year ended December 31, 2021, options to purchase up to 925,000 common shares of the Company at a weighted average exercise price of \$0.29, expired unexercised.

On January 13, 2022, options to purchase up to 450,000 common shares of the Company at an exercise price of \$0.22 per share, granted on January 13, 2017, expired unexercised.



## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 12. STOCK OPTIONS (Continued)

The following table reflects the stock options outstanding and exercisable at September 30, 2022:

Date of Grant	Number of options		Exercise Price	Expiry Date	Remaining contractual life (years)
	Outstanding	Exercisable			
November 1, 2017	170,000	170,000	\$0.17	November 1, 2022	0.09
April 6, 2018	400,000	400,000	\$0.39	April 6, 2023	0.52
December 19, 2019	880,000	880,000	\$0.25	December 19, 2024	2.22
September 9, 2020	170,000	170,000	\$0.30	September 9, 2023	0.94
September 9, 2020	775,000	775,000	\$0.30	September 9, 2025	2.94
June 10, 2021	150,000	150,000	\$0.25	June 10, 2023	0.69
July 17, 2021	890,000	890,000	\$0.33	July 17, 2024	1.79
July 17, 2021	900,000	900,000	\$0.33	July 17, 2026	3.79
October 29, 2021	50,000	25,000	\$0.28	October 29, 2024	2.08
April 8, 2022	250,000	250,000	\$0.17	April 8, 2025	2.52
	<b>4,635,000</b>	<b>4,610,000</b>	<b>\$0.30</b>		<b>2.26</b>

The weighted average remaining contractual life of options outstanding and exercisable at September 30, 2022 is 2.26 years (December 31, 2021 – 2.71 years) at a weighted average exercise price of \$0.30 (December 31, 2021 - \$0.30).

#### 13. WARRANTS

The following table reflects the continuity of warrants for the nine months ended September 30, 2022 and year ended December 31, 2021:

	Number of Warrants	Amount \$
<b>Balance – December 31, 2020</b>	<b>10,072,465</b>	<b>1,684,775</b>
Warrants issued pursuant to private placement <sup>(i)</sup>	20,000,000	1,935,000
Broker warrants issued pursuant to private placement <sup>(i)</sup>	48,000	12,000
Warrants expired	(5,625,665)	-
<b>Balance – December 31, 2021</b>	<b>24,494,800</b>	<b>3,631,775</b>
Warrants expired	(4,446,800)	-
<b>Balance – September 30, 2022</b>	<b>20,048,000</b>	<b>3,631,775</b>

- (i) The 20,000,000 share purchase warrants exercisable at \$0.40 and the 48,000 broker warrants exercisable at \$0.25, were issued pursuant to the private placement that closed on June 18, 2021 (see Note 11(b)(i)). They have estimated issue date fair values of \$1,935,000 and \$12,000, respectively which were estimated using the Black-Scholes option pricing model using the following assumptions:

## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 13. WARRANTS (Continued)

Issue Date	Stock Price	Exercise Price	Risk-free Interest Rate	Expected Stock Price Volatility	Expected Life (in years)	Expected Dividend Rate	Expected Forfeiture Rate
June 18, 2021	\$0.35	\$0.40	0.45%	133%	2	0%	0%
June 18, 2021	\$0.35	\$0.25	0.45%	133%	2	0%	0%

As at September 30, 2022, the following warrants were outstanding. The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Warrants Outstanding	Exercise Price	Weighted Average Remaining Life (years)	Expiry Date	Issue Date Fair Value
20,000,000	\$0.40	0.72	June 18, 2023	\$ 1,935,000
48,000	\$0.25	0.72	June 18, 2023	12,000
20,048,000	\$0.40	0.72		\$ 1,947,000

#### 14. EXPLORATION AND EVALUATION EXPENDITURES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Peru Properties	\$ 295,190	\$ 423,581	\$ 1,228,821	\$ 742,501
El Santuario Property	16,739	27,509	54,278	49,130
	\$ 311,929	\$ 451,090	\$ 1,283,099	\$ 791,631

##### Peru Properties

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

##### El Santuario Property

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

#### 15. COMMITMENTS AND CONTINGENCIES

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

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

## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 16. SEGMENTED INFORMATION

As at September 30, 2022, the Company's operations comprise a single operating segment engaged in mineral exploration in Peru and Mexico. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8, 'Operating Segments'. As the operations comprise a single operating segment for accounting purposes, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

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

As at September 30, 2022	Canada	Peru	Mexico	Total
Cash and cash equivalents	\$ 391,214	\$ 4,892	\$ 1,944	\$ 398,050
Receivables	23,145	-	-	23,145
Prepaid expenses	128,224	-	-	128,224
Equipment	-	28,803	-	28,803
Investment in associate	47,620	-	-	47,620
	<b>\$ 590,203</b>	<b>\$ 33,695</b>	<b>\$ 1,944</b>	<b>\$ 625,842</b>

As at December 31, 2021	Canada	Peru	Mexico	Total
Cash and cash equivalents	\$ 2,026,187	\$ 205,346	\$ 1,776	\$ 2,233,309
Receivables	60,800	-	-	60,800
Prepaid expenses	233,097	5,330	-	238,427
Equipment	-	26,457	-	26,457
Investment in associate	105,065	-	-	105,065
	<b>\$ 2,425,149</b>	<b>\$ 237,133</b>	<b>\$ 1,776</b>	<b>\$ 2,664,058</b>

#### 17. INVESTMENT IN ASSOCIATE

On September 19, 2019, the Company entered into an agreement with Winshear Gold Corp. ("Winshear") whereby Palamina sold 100% of the application and mining rights to the Gaban Gold and Tinka I.O.C.G. projects in Peru to Winshear ("Winshear Sale"). In exchange, Palamina was issued 5,000,000 shares of Winshear during the year ended December 31, 2019 and another 5,000,000 common shares of Winshear during the year ended December 31, 2020.

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

## PALAMINA CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(Expressed in Canadian dollars)

#### 17. INVESTMENT IN ASSOCIATE (Continued)

On September 13, 2021, Palamina entered into a share for debt agreement with Windshear to convert the ARP receivable of \$31,137 (US\$25,000) due September 19, 2021 and trade receivables of \$10,863 (US\$8,700) to 525,000 common shares of Winshear valued at \$0.08, or \$42,000. The common shares of Winshear were issued on October 8, 2021.

On October 22, 2021, Palamina purchased 255,000 common shares of Winshear privately valued at \$0.09 or \$22,950.

On December 1, 2021, Winshear closed a private placement unit financing at \$0.10 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant is exercisable into one common share of Winshear at a price of \$0.20 per share for a period of 36 months until December 1, 2024. Palamina purchased 1,092,000 units of the private placement for \$109,200 to hold 11,872,000 shares, or 19.28% of Winshear.

On August 19, 2022, Winshear closed a private placement unit financing at \$0.06 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant is exercisable into one common share of Winshear at a price of \$0.10 per share for a period of 24 months until August 19, 2024. Palamina purchased 1,550,000 units of the private placement for \$93,000 to hold 13,422,000 shares, or 18.53% of Winshear.

Due to these shareholdings and the two directors the Palamina appointed to the board of Winshear, the Company has determined that it has significant influence over Winshear and has accounted for its investment as an Investment in Associate using the equity basis of accounting.

Changes in the investment in associate for the nine months ended September 30, 2022 and year ended December 31, 2021 were as follows:

	Shares	Amount
<b>Balance – December 31, 2020</b>	<b>10,000,000</b>	<b>\$ 132,155</b>
Shares received for settlement of advance royalty payment	389,213	31,137
Shares received for settlement of debt	135,787	10,863
Purchased privately	255,000	22,950
Purchased through private placement of units	1,092,000	109,200
Proportionate share of net loss	-	(201,240)
<b>Balance – December 31, 2021</b>	<b>11,872,000</b>	<b>105,065</b>
Purchased through private placement of units	1,550,000	93,000
Proportionate share of net loss	-	(150,445)
<b>Balance – September 30, 2022</b>	<b>13,422,000</b>	<b>\$ 47,620</b>

As at September 30, 2022, Palamina held 13,422,000 common shares or 18.53% (December 31, 2021 – 11,872,000 common shares or 19.28%) of Winshear. Fair value of one Winshear common share as at September 30, 2022 was \$0.045 which is based on the trading price of the shares.