



(An Exploration Stage Company)

Condensed Consolidated Interim Financial Statements
For the Six Months Ended August 31, 2019 and 2018
(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

Assets	August 31, 2019	February 28, 2019
Current Assets:		
Cash and cash equivalents	\$ 873,871	\$ 292,578
Sales tax and other receivables (Note 4)	4,273	10,530
Prepaid expenses	34,025	1,622
	912,169	304,730
Non-Current Assets:		
Deposits	12,597	12,597
Restricted cash (Note 8)	-	-
Right-of-use asset (Note 10)	158,820	-
Exploration and evaluation assets (Note 5)	1	1
Total Assets	\$ 1,083,587	\$ 317,328
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 7 & 12)	\$ 186,032	\$ 259,910
Convertible debentures (Note 9)	99,783	-
Interests payable (Note 9)	10,395	269,739
Lease liability – current portion (Note 10)	51,856	-
	348,066	529,649
Held-in-trust account (Note 8)	-	-
Lease liability – long-term (Note 10)	112,471	-
Total Liabilities	460,537	529,649
Shareholders' Equity (Deficiency):		
Share capital (Note 11)	18,931,469	17,670,167
Reserves (Note 11)	6,006,006	5,897,832
Accumulated other comprehensive loss ("AOCL")	(213,523)	(213,523)
Deficit	(24,100,902)	(23,566,797)
Total Equity (Deficiency)	623,050	(212,321)
Total Liabilities and Equity	\$ 1,083,587	\$ 317,328

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 13)

Approved by the Board of Directors on October 30, 2019

"Spencer Sung Bum Huh", Director

"Larry Okada", Director

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Note	For Three Months Ended August 31		For Six Months Ended August 31,	
		2019	2018	2019	2018
Expenses					
Depreciation	10	\$ 15,370	\$ -	\$ 20,493	\$ -
Consulting and management fees	12	119,700	58,079	224,380	118,798
Corporate listing and filing fees		10,235	5,678	29,425	19,567
Exploration and evaluation expenses		-	5,030	-	59,530
Investor relations		1,285	1,234	4,729	2,031
Office and general	10	1,903	12,227	30,496	55,517
Stock based compensation		-	-	-	143,000
Professional fees	12	38,523	41,557	72,184	72,870
Travel		54,052	17,897	128,430	26,726
Loss from operations		241,068	141,702	510,137	498,039
Other expense (income)					
Interest expense (income) and other expense (income)		(1,035)	637	(1,170)	1,047
Finance cost – accretion	9	1,454	-	4,519	-
Finance cost – convertible debenture interest	9	3,348	-	10,395	-
Loss (gain) on foreign exchange		(1,087)	580	(706)	6,858
Lease interest	10	8,069	-	10,759	-
Write-off accrued receivables		171	-	171	-
Gain on debt settlement		-	-	-	(6,200)
Total other expense (income)		10,920	1,217	23,968	1,705
Net loss for the period		251,988	142,919	534,105	499,744
Comprehensive loss for the period		\$ 251,988	142,919	\$ 534,105	\$ 499,744
Loss per share					
Basic		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding					
		61,859,757	44,336,552	59,029,089	43,009,645

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

	Six Months Ended August 31,	
	2019	2018
Operating Activities:		
Net loss for the period	\$ (534,105)	\$ (499,744)
Adjustment for items which do not involve cash:		
Depreciation	20,493	-
Gain on debt settlement	-	(6,200)
Write-off accrued receivables	171	-
Finance cost – convertible debenture	4,519	-
Stock based compensation	-	143,000
Changes in non-cash working capital components:		
Accounts payable and accrued liabilities	(73,877)	(5,791)
Convertible debenture interest payable	10,395	-
Prepaid expenses	(32,403)	(2,955)
Sales tax and other receivables	6,086	7,674
	(598,721)	(364,056)
Investing Activities:		
Proceeds of disposal of exploration and evaluation assets	-	172,698
Exploration and evaluation assets	-	(143,278)
Lease liability payment	(14,986)	-
	(14,986)	29,420
Financing Activities:		
Shares issued for cash, net	1,165,000	90,000
Share issuance from warrants exercise	30,000	-
Share subscribed received	-	366,000
	1,195,000	90,000
Net changes in cash and cash equivalents	581,293	121,364
Cash and cash equivalents - beginning of the period	292,578	168,668
Cash and cash equivalents - end of the period	\$ 873,871	\$ 290,032
Non-cash Activities:		
Right-of-use asset - capitalized	\$ 179,313	\$ -
Share issued from convertible debenture conversion	182,302	-

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Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Note	SHARE CAPITAL		SHARES TO BE	RESERVE	ACCUMULATED	DEFICIT	TOTAL EQUITY
		SHARES	AMOUNT	ISSUED		OTHER COMPREHENSIVE LOSS ("AOCL")		
Balance – February 28, 2018	Note	34,542,552	17,037,537	399,700	5,104,571	(213,523)	(19,753,863)	2,574,422
Share issued in private placement		6,700,000	335,000	(245,000)	-	-	-	90,000
Debt settlement		3,094,000	154,700	(154,700)	-	-	-	-
Share-based compensation		-	-	-	143,000	-	-	143,000
Share subscribed		-	-	366,000	-	-	-	366,000
Fair value of warrants issued		-	(309,000)	-	309,000	-	-	-
Net loss for the period		-	-	-	-	-	(499,744)	(499,744)
Balance – August 31, 2018		44,336,552	17,218,237	366,000	5,556,571	(213,523)	(20,253,607)	2,673,678
Balance (Deficiency) - February 28, 2019		55,862,552	17,670,167	-	5,897,832	(213,523)	(23,566,797)	(212,321)
Shares issued in private placements	11(a)	11,500,000	1,072,000	-	128,000	-	-	1,200,000
Share issue cost	11(a)	-	(35,000)	-	-	-	-	(35,000)
Shares issued - convertible debenture conversion	9	2,571,428	182,302	-	(7,826)	-	-	174,476
Warrants exercised	11(b)	300,000	42,000	-	(12,000)	-	-	30,000
Net loss for the period		-	-	-	-	-	(534,105)	(534,105)
Balance - August 31, 2019		70,233,980	18,931,469	-	6,006,006	(213,523)	(24,100,902)	623,050

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Pan Andean Minerals Ltd. (the “Company” or “Pan Andean”) is an exploration stage enterprise focusing on the acquisition, exploration and development of economic gold and other precious and base metal properties. Currently, the Company’s mineral properties are the Minto/Carmacks Copper-Gold Properties located in the Yukon, and the Cima and Chanape properties in Peru. Pan Andean Minerals Ltd. is a publicly listed company incorporated under the Business Corporations Act of British Columbia on February 10, 2006 as 0748496 B.C. Ltd. On March 1, 2006, the Company changed its name to BCGold Corp, and again on March 16, 2017 to Pan Andean Minerals Ltd. The Company is listed on the TSX Venture Exchange (“TSX.V”) under the symbol “PAD”. The head office, principal address and records office of the Company are located at Suite 520 – 800 West Pender Street, Vancouver, British Columbia, Canada, V6C 2V6. The Company’s registered address is Suite 1500 - 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company continues to incur operating losses, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to continue operations. These material uncertainties may cast a significant doubt on the validity of this assumption. The Company’s ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to continue operations. As at August 31, 2019, the Company has an accumulated deficit of \$24,100,902 (February 28, 2019 - \$23,566,797), a net loss for the six months ended August 31, 2019 of \$534,105 (August 31, 2018 - \$499,744) and has working capital of \$564,103 (February 28, 2019 – \$224,919 deficit).

If the going concern assumption is not appropriate for these consolidated financial statements, adjustments could be necessary in the carrying values of assets, liabilities, reported income and expenses and the statement of financial position classifications used. Such adjustments could be material.

On March 11, 2019, the Company entered into binding letter of intent with North Star Holdings, a fully integrated producer, processor and distributor of medicinal cannabis with operations in Colorado, U.S. The LOI outlines the proposed terms and conditions pursuant to which the Company and North Star will affect a business combination that results in a reverse takeover of the Company by the security holders of North Star. On June 25, 2019, the Company terminated the letter of intent with North Star Holdings. During March 8 to August 8, 2019, the Company’s common shares were halted from trading due to the reverse takeover proposal with North Star. On August 9, 2019, the Company’s common shares resumed the trading.

2. Basis of Preparation

Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB have been condensed or omitted and these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended February 28, 2019.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 30, 2019.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

2. Basis of Preparation – continued

These condensed consolidated interim financial statements incorporate the financial statements of the Company and the entities controlled (directly or indirectly) by the Company (its subsidiaries) including Circum-Pacific Holdings Ltd., Canada, Minera Chanape SAC, Peru and Cima De Oro SAC, Peru. All significant intercompany transactions and balances have been eliminated.

The condensed consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

Critical Accounting Estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position based on the planned exploration budgets and drill results of exploration programs.
- ii) The inputs used in accounting for share-based compensation expense included in profit or loss calculated using the Black-Scholes option pricing model.
- iii) The valuations of shares issued in non-cash transactions using the quoted share price as the fair value-based measurement on the date the shares are issued for the transaction.
- iv) The recognition of deferred tax assets based on the change in unrecognized deductible temporary tax differences.

3. New Accounting Standards Adopted

IFRS 16 – Leases

On March 1, 2019, the Company adopted IFRS 16 – Leases (“IFRS 16”) which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17.

IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less), leases with certain variable lease payments and leases of low-value assets.

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Notes to Condensed Consolidated Interim Financial Statements

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3. New Accounting Standards Adopted - continued

The Company applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease liabilities related to its lease commitments for its office leases. The lease liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as at March 1, 2019, the date of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets will be measured at the lease liabilities amount. The Company has implemented the following accounting policies permitted under the new standard:

- leases of low dollar value will continue to be expensed as incurred; and
- the Company will not apply any grandfathering practical expedients.

New accounting policy for leases under IFRS 16

The following is the accounting policy for leases as of March 1, 2019 upon adoption of IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2019 and 2018

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3. New Accounting Standards Adopted - continued

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

4. Other Receivables

	August 31, 2019	February 28, 2019
Sales tax (GST)	\$ 4,273	\$ 9,676
Other receivables	-	854
Total	\$ 4,273	\$ 12,152

5. Exploration and Evaluation Assets and Expenditures

Details of the Company's exploration and evaluation acquisition costs are as follows:

	Minto/Carmacks (Yukon) \$	Other Properties (BC & Yukon) \$	Chanape & Cima (Peru) \$	Total \$
Balance - February 28, 2018	210,000	19,633	2,560,619	2,790,252
Sale of property	(210,000)	-	-	(210,000)
Mining rights-yearly govt. validity fee	-	-	37,905	37,905
Other exploration expenditures	-	-	39,467	39,467
Property option payment paid	-	-	79,014	79,014
Impairment of mining property	-	(19,633)	(2,717,004)	(2,736,637)
Balance - February 28, 2019	-	-	1	1
Balance – August 31, 2019	-	-	1	1

Details of the Company's exploration and evaluation expenses, which have been cumulatively expensed in the Statements of Loss and Comprehensive Loss and Deficit, are as follows:

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Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets and Expenditures - continued

	Minto/ Carmacks Copper-Gold (Yukon) \$	Engineer (BC) \$	Gold Hill (BC) \$	Blind Creek (BC) \$	Voigtberg (BC) \$	Other Properties (BC & Yukon) \$	Chanape & Cima (Peru) \$	Total \$
Balance – February 28, 2018	4,011,254	3,738,558	315,424	9,570	912,811	1,411,786	190,619	10,590,022
E & E expenses	46,970	-	-	-	-	-	15,560	62,530
Balance – February 28, 2019	4,058,224	3,738,558	315,424	9,570	912,811	1,411,786	205,179	10,652,252
Balance – August 31, 2019	4,058,224	3,738,558	315,424	9,570	912,811	1,411,786	205,179	10,652,252

(a) Minto/Carmacks Copper-Gold Properties, Yukon

On November 1, 2006, the Company entered into an option agreement and subsequently acquired a 100% interest in 16 mineral properties by making \$300,000 in cash payments, incurring \$900,000 in exploration expenditures and issuing 100,000 units between April 2007 and October 2010. An NSR of 1.75% applies to these properties, of which 1.25% can be purchased by the Company for \$1,500,000. During the year ended February 28, 2016, six properties with acquisition costs of \$200,534 were dropped and such costs were written off.

On July 18, 2018, the Company entered into a sale agreement (amended August 29, 2018) with a wholly owned subsidiary of Pembridge Resources Plc (“Pembridge”). The Company agreed to sell its 100% interest in the remaining mineral claims in the Yukon (the “Minto Property”) for \$210,000. The transaction had an original closing date of August 31, 2018 but was amended on April 9, 2019 to be five days after Pembridge obtains a listing on the standard segments of the official list of the Financial Conduct Authority to trade on the main market of the London Stock Exchange. As at August 31, 2019, the Company had received a total of \$182,537 from the purchaser.

At closing, the purchaser shall confirm to the Company the existing NSR in effect on the property as of the closing date. The purchaser shall have the right to buy out the NSR at any time for a purchase price of \$500,000 and shall also make payment to the Company within 30 days after providing written notice to the Company that the purchaser wishes to buy out the NSR.

On April 9, 2019, the Company entered the second amendment to the purchase agreement with Pembridge. The Company agreed to extend the closing date to five business days after the date of admission of Pembridge being listing on and trading on the main market of London Stock Exchange PLC. The two parties also agreed that the final payment balance of \$27,463 was replaced with the issuance 100,000 Pembridge ordinary shares. At February 28, 2019, the Company decided to write-off the final balance of the payment of \$27,463. In August 2019, the Company received the 100,000 Pembridge ordinary shares. There is no fair market value of the Pembridge shares as of August 30, 2019.

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For the Six Months Ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets and Expenditures – continued

(b) Other properties (BC & Yukon) - Rainbow Property, B.C.

On July 10, 2015, the Company sold its 100%-owned 926-hectare Rainbow Property, situated three kilometres south of the Mt. Milligan copper-gold mine, to Terrane Metals Corp. ('TMC') for \$35,000. The Company retains a 2.5% NSR on the Rainbow Property, which may be purchased by TMC at any time for \$250,000. On February 28, 2019, the Company decided to write-off the cost related to the property but retains the NSR.

(c) Chanape and Pucacorrall, Peru

On August 2, 2016 the Company announced that it had completed agreements to acquire a 100% interest in the Chanape and Pucacorrall properties located in Peru. The acquisition of this interest was effected partially by way of an agreement whereby the Company acquired all the issued and outstanding shares of a British Columbia company, Circum-Pacific Holdings Ltd., ('Circum Pacific'), which holds 66.67% interests in two private Peruvian subsidiaries, by issuing 10,000,000 shares of the Company, and by paying cash of \$40,000, to the vendors. The Company also acquired all minority interests in the two Peruvian subsidiary companies, not already held by Circum Pacific, through the issuance of 5,000,000 shares of the Company and the payment of \$20,000 to a separate vendor.

One of the Peruvian subsidiaries, Cima de Oro S.A.C. ("Cima"), has an option agreement (the "Tres Agreement") to purchase all the issued and outstanding shares of another private Peruvian company, SMRL Cerro de Oro Tres ("Tres").

Of the 15,000,000 common shares issued by the Company, a total of 3,336,000 shares were held in escrow and were to be released concurrent with certain payments or other ownership milestones being met under the Tres Agreement.

Under the Tres Agreement option Cima is required to complete option payments as follows to earn up to a 100% interest in Tres:

	<u>Payment</u>	<u>Cumulative Vested Interest</u>
At the onset of the option	US\$ 40,000 (Paid)	16.6%
February 12, 2017	US\$ 60,000 (Paid)	23.26%
June 20, 2018	US\$ 60,000 (Paid)	29.92%
February 12, 2019	US\$ 75,000	
August 12, 2019	US\$ 85,000	39.92%
February 12, 2020	US\$ 100,000	
August 12, 2020	US\$ 100,000	51.92%
August 12, 2021	US\$ 980,000	100%

On November 8, 2018, the Company entered into a settlement agreement with three former directors. Pursuant to this agreement, the Company agreed to release the remaining 3,336,000 shares held in escrow under the Tres Agreement

On February 28, 2019, the Company decided to write-down the value of the property to \$1 as the Company no longer intends to pursue exploration of the properties under the Tres Agreement.

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Notes to Condensed Consolidated Interim Financial Statements

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6. Financial Risk and Capital Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is summarized as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts at a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to necessary levels of equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. As at August 31, 2019, the Company had negligible financial assets or liabilities denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risks.

Capital management

The Company's policy is, if permitted by market conditions, to maintain a strong capital base so as to support investor and creditor confidence and support future development of the business. The capital structure of the Company consists of equity, comprising share capital and reserves net of accumulated deficit. The Company is not subject to any externally imposed capital requirements.

The Company's financial instruments consist of cash, accounts payable, accrued liabilities and convertible debentures. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these investments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- **Level 1** – Unadjusted quoted prices in active markets for identical assets or liabilities;
- **Level 2** – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- **Level 3** – Inputs that are not based on observable market data. Cash is measured at fair value using Level 1 inputs.

Fair value measurement

Cash is measured at fair value using Level 1 inputs.

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Notes to Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

7. Trade Payables and Accrued Liabilities

	August 31, 2019	February 28, 2019
Trade payables	\$ 178,032	\$ 242,910
Accrued liabilities	8,000	17,000
Total	\$ 186,032	\$ 259,910

8. Held-in-trust Account

In May 2019, the Company received a total of \$1,100,000 from three investors. The investors wished to participate the Company's future private placements. Because of the Company's common shares being halted from trading in May 2019, the Company had held the funds in the trust until the common shares of the Company resume trading and common shares are issued to the investors. In July 2019, \$200,000 of investment was released from trust account and returned to one investor. In August 2019, \$900,000 of investment from trust account participated the private placement.

See Note 11 (a).

9. Convertible debentures

On February 28, 2019, the Company issued convertible debentures in an aggregate principal amount of \$282,000 to a group of investors. Each debenture accrues interest at an annual rate of 10% and is to be repaid on March 1, 2020. The convertible debenture holders have rights to convert a portion, or all, of the principal amount of each note at a price of \$0.07 (conversion price) into common shares of the Company at any time prior to March 1, 2020. A finder's fee of \$7,000 was paid in conjunction with the issuance of the debentures. Based on a discount factor of 15%, the debt portion of the debentures was valued at \$269,739 and the equity portion of the debentures was valued at \$12,261.

In June 2019, \$180,000 principal of convertible debenture were converted to 2,571,428 common shares of the Company at \$0.07. The equity portion of convertible debenture in the amount of \$7,826 was transferred to share capital.

See Note 11 (a).

For six months ended August 31, 2019, accretion for debenture was calculated as \$4,519 (2018 - \$Nil) and interest expense \$7,050 (2018 - \$Nil). As of August 31, 2019, the accrued interest payable related to convertible debenture are \$10,395 (February 28, 2019 - \$Nil). The carrying value of convertible debenture is as below:

	August 31, 2019	February 28, 2019
Convertible debenture – beginning of the period	\$ 269,739	\$ 282,000
Converted to common shares	(182,302)	-
Equity portion	7,826	(12,261)
Finance cost - accretion	4,519	-
Carrying value – end of the period	\$ 99,783	\$ 269,739

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10. Right-of-use Asset & Lease Liability

The Company extended its lease agreement for office space taking effect May 1, 2019 and the remaining period running through April 30, 2022. Minimum annual commitments for basic rent, excluding additional operating costs, at April 30, 2019 is as follows:

Year	Amount
2020	\$ 64,362
2021	80,032
2022	83,390
2023	13,992
	<u>\$ 241,776</u>

The Company concurrently subleases a portion of the office space to three other companies. The three companies have the right to terminate their sublease agreement after the initial term completed. A termination notice is required with at least two months before the effective date of the notice.

The lease liability was discounted at a discount rate of 15% as at April 30, 2019. As at May 1, 2019, the Company recognized \$179,313 in right-of-use asset and \$179,313 in lease liability as summarized below:

Minimum lease payments under operating leases as of April 30, 2019	\$	241,776
Effect from discounting at the incremental borrowing rate as of May 1, 2019		<u>(62,463)</u>
		<u>179,313</u>
Lease liability recognized as of May 1, 2019		<u>179,313</u>
Right-of-use asset recognized as of May 1, 2019	\$	<u>179,313</u>

As at August 31, 2019, the Company recognized \$158,820 in right-of-use asset and \$164,327 in lease liability as summarized below:

Right-of-use Asset	August 31, 2019	February 28, 2019
Opening balance	\$ -	\$ -
Recognized on adoption of IFRS 16	179,313	-
Less: depreciation	<u>(20,493)</u>	-
	<u>\$ 158,820</u>	\$ -

Lease liability	August 31, 2019	February 28, 2019
Lease liability	\$ 164,327	\$ -
Less: current portion	<u>(51,856)</u>	-
Classified as long-term liability	<u>\$ 112,471</u>	\$ -

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10. Right-of-use Asset & Lease Liability - continued

Undiscounted lease payments	August 31, 2019	February 28, 2019
Less than a year	\$ 78,633	\$ -
Longer than a year	137,398	-
	\$ 216,031	\$ -

The Company's lease relates to office premises in British Columbia, Canada. Interest expense on lease liability for the six months ended August 31, 2019 is \$10,759 (2018 - \$Nil). Depreciation of right-to-use asset is calculated using the straight-line method over the remaining lease term. During the six months ended August 31, 2019, the Company incurred \$44,076 for leases with variable lease payments not included in lease liability. The variable lease payments relate to office with consideration based on usage.

11. Share Capital

(a) Share Capital

The Company's authorized share capital consists of an unlimited number of common voting shares without par value.

Year Ended February 28, 2019

Effective March 7, 2018, the Company's common shares commenced trading on a post 2 for 1 consolidation basis. All common share and per common share amounts in these consolidated financial statements reflect the share consolidation.

Shares for debt settlement

During year ended February 28, 2019, pursuant to a debt settlement, the Company issued a total of 5,100,000 common shares at a deemed price of \$0.05 to settle debts in amount of \$255,000. The amount of indebtedness represents outstanding payments of consulting fees indebted to three former directors of the Company.

Private Placements

On March 16, 2018, the Company closed a private placement of 6,700,000 units at a price of \$0.05 per unit for gross proceeds of \$335,000. Each unit consists of one common share and one common share warrant, each warrant entitling the holder to purchase one common share at a price of \$0.10 per common share within 24 months of the closing of the private placement. The warrants expire 24 months from the date of issuance and are exercisable at \$0.10 per share. The fair market value of these warrants was calculated at \$226,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 1.76% risk free interest rate, expected life of 2 years, 147.36% annualized volatility and 0% dividend rate.

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11. Share Capital – continued

Private Placements - continued

On September 17, 2018, the Company closed a private placement of 7,320,000 units at a price of \$0.05 per unit for gross proceeds of \$366,000. Each unit consists of one common share and one-half common share warrant, each warrant entitling the holder to purchase one common share at a price of \$0.10 per common share within 24 months of the closing of the private placement. A total of finder's fee of \$10,370 was paid in conjunction with the issuance. The fair market value of these warrants was calculated at \$150,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 2.13% risk free interest rate, expected life of 2 years, 162.02% annualized volatility and 0% dividend rate.

On December 20, 2018, the Company closed a private placement of 2,200,000 units at a price of \$0.05 per unit for gross proceeds of \$110,000. Each unit consists of one common share and one common share warrant, each warrant entitling the holder to purchase one common share at a price of \$0.10 per common share within 24 months of the closing of the private placement. The fair market value of these warrants was calculated at \$47,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 1.91% risk free interest rate, expected life of 2 years, 161.88% annualized volatility and 0% dividend rate.

Six Months Ended August 31, 2019

On May 22, 2019, the Company closed a private placement of 2,500,000 common shares at a price of \$0.12 per share for gross proceeds of \$300,000.

On August 21, 2019, the Company closed a private placement of 9,000,000 units at a price of \$0.10 per unit for gross proceeds of \$900,000. Each unit consists of one common share and one-half common share warrant, each warrant entitling the holder to purchase one common share at a price of \$0.30 per common share within 24 months of the closing of the private placement. The fair market value of these warrants was calculated at \$128,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 1.58% risk free interest rate, expected life of 2 years, 165.39% annualized volatility and 0% dividend rate. A finder's fee of \$35,000 was paid in conjunction with the private placement.

See Note 8.

Share Issuance - Convertible Debenture Conversion

In June 2019, \$180,000 principal of convertible debenture were converted to 2,571,428 common shares of the Company at \$0.07 (conversion price). The equity portion of convertible debenture in the amount of \$7,826 was transferred to share capital.

See Note 9.

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11 Share Capital – continued

(b) Share Purchase Warrants

In May 2019, 322,800 warrants expired, and 300,000 warrants exercised for gross proceeds of \$30,000.

On August 20, 2019, 4,500,000 warrants issued from private placement (Note 11 (a)).

In July 2019, 204,250 warrants expired.

See Note 12.

As at August 31, 2019, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants	Remaining Years
October 13, 2019	\$0.12	3,447,500	0.12
November 30, 2019	\$0.50	20,000	0.25
March 16, 2020	\$0.10	6,700,000	0.54
September 17, 2020	\$0.10	3,360,000	1.04
December 20, 2020	\$0.10	2,200,000	1.31
August 21, 2021	\$0.30	4,500,000	1.98
Total warrants outstanding		20,227,500	
Weighted average price	\$0.15		
Average remaining years			0.96

(c) Stock Options

The Company has established a stock option plan (the "Plan") for directors, employees, and consultants of the Company. From time to time, shares may be reserved by the Board, in its discretion, for options under the Plan, provided that at the time of the grant, the total number of shares so reserved for issuance by the Board shall not exceed the greater of 10% of the issued and outstanding listed shares (on a non-diluted basis) as at the date of grant. No options shall be granted, without regulatory approval, entitling any single individual to purchase in excess of 5% of the then outstanding shares in the Company in any 12 month period and no more than 2% of the optioned shares may be issued to any one individual in any 12 month period. If the option rights granted under the plan shall expire or terminate for any reason without having been exercised, such optioned shares may be made available for other options to be granted under the plan. The shares so reserved by the Board under the Plan shall be authorized but unissued shares.

The options are non-transferable and will expire, if not exercised, immediately upon dismissal by the Company with cause or 90 days following the date the optionee otherwise ceases to be a director, officer, manager, consultant or employee of the Company for reasons other than death. In the case of death, the expiry becomes one year after the death of an optionee. Pursuant to the policies of the TSX.V, options granted pursuant to the Plan in excess of 10% of the issued and outstanding common shares at the time of the grant must be subject to vesting.

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11. Share Capital – continued

(c) Stock Options - continued

The Board has previously established a rolling Stock Option Plan which reserves for issuance up to 10% of the Company's outstanding common shares. The policies of the TSX Venture exchange require such stock option plans to be approved annually by the Company's shareholders by way of an ordinary resolution. Shareholder approval shall be sought at the next AGM for the Stock Option Plan, as such, any options issued prior to such approval shall not be exercisable until such approval is granted by shareholders.

Year Ended February 28, 2019

On March 21, 2018, the Company granted 2,400,000 stock options to its directors, officers and consultants at an exercise price of \$0.06 per option. The options are exercisable on and before March 21, 2023. The fair market value of these options was calculated at \$143,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 2.10% risk free interest rate, expected life of 5 years, 226.48% annualized volatility and 0% dividend rate.

On June 6, 2018, 103,000 stock options exercisable at \$1.00 per share expired.

On February 28, 2019, the Company granted 3,100,000 stock options to its directors, officers and consultants at an exercise price of \$0.06 per option. The options are exercisable on and before February 28, 2024. The fair market value of these options was calculated at \$215,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 1.82% risk free interest rate, expected life of 5 years, 223.60% annualized volatility and 0% dividend rate.

Six Months Ended August 31, 2019

There are no options granted during the six months ended August 31, 2019.

At August 31, 2019, the following options were outstanding and exercisable.

Expiry Date	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Remaining Years	Number of Options Exercisable
March 20, 2023	\$0.06	2,400,000	3.56	2,400,000
February 28, 2024	\$0.06	3,100,000	4.50	3,100,000

12. Related Party Transactions

Key management personnel include those persons having authority and responsibility for planning, directing and controlling activities of the Company as a whole. The Company has determined that its key management personnel consist of the Company's Board of Directors and corporate officers, and/or companies controlled by its key management personnel.

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12. Related Party Transactions - *continued*

The following amounts due to related parties are included in trade payables and accrued liabilities. These amounts are unsecured, non-interest bearing and have no fixed terms of payments. All related party amounts are to key management personnel.

	August 31, 2019	February 28, 2019
Due to related party	\$ 3,595	\$ 10,525

The remuneration of directors and other members of key management personnel during the six months ended August 31, 2019 and 2018 were as follows:

	August 31, 2019	August 31, 2018
Management fees	\$ 116,200	\$ 91,844
Professional fees	19,000	29,000
	\$ 135,200	\$ 120,844

All amounts paid to related parties have been recorded at fair value for the services received by the Company.

13. Subsequent Events

On October 13, 2019, 3,447,500 warrants with an exercise price of \$0.12 per warrant expired.