



(An Exploration Stage Company)

Audited Consolidated Financial Statements
For the Years Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Pan Andean Minerals Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pan Andean Minerals Ltd. ("the Company"), which comprise the consolidated statements of financial position as at February 28, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at February 28, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company continues to incur operating losses with no source of operating cash flow and is dependent upon equity financing to continue its operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the "Management's Discussion and Analysis", but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brad J. Waddell.



CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC, Canada
June 27, 2019

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

Assets	February 28, 2019	February 28, 2018
Current Assets:		
Cash and cash equivalents	\$ 292,578	\$ 168,668
Sales tax and other receivables (Note 4)	10,530	16,578
Prepaid expenses	1,622	11,397
	304,730	196,643
Non-Current Assets:		
Deposits	12,597	12,597
Reclamation bonds (Note 5)	-	5,500
Exploration and evaluation assets (Note 6)	1	2,790,252
Total Assets	\$ 317,328	\$ 3,004,992
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 7 & 11)	\$ 259,910	\$ 428,280
Convertible debentures (Note 9)	269,739	-
Flow-through premium liability (Note 8)	-	2,290
Total Liabilities	529,649	430,570
Shareholders' Equity (Deficiency):		
Share capital (Note 10)	17,670,167	17,037,537
Share to be issued	-	399,700
Reserves	5,897,832	5,104,571
Accumulated other comprehensive loss ("AOCL")	(213,523)	(213,523)
Deficit	(23,566,797)	(19,753,863)
Total Equity (Deficiency)	(212,321)	2,574,422
Total Liabilities and Equity	\$ 317,328	\$ 3,004,992

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 16)

Approved by the Board of Directors on June 27, 2019

"Spencer Sunq Bum Huh", Director

"Larry Okada", Director

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Note	For Year Ended February 28,	
		2019	2018
Expenses			
Bad debt		\$ 8,466	\$ -
Consulting and management fees	11	279,610	230,000
Corporate listing and filing fees		48,214	25,792
Debt financing fees		7,000	-
Depreciation		-	1,662
Exploration and evaluation expenses	6	62,530	77,672
Investor relations		4,151	56,232
Office expenses		36,874	15,918
Stock based compensation	10 (c)	358,000	-
Professional fees	11	138,804	123,475
Rent		65,092	53,250
Travel		62,565	16,471
Loss from operations		1,071,306	600,472
Other expense (income)			
Interest expense (income) and other expense		(1,062)	(195)
Loss (gain) on foreign exchange		(12,920)	11,544
Loss on disposal of equipment		-	8,198
Impairment of exploration and evaluation assets		2,736,637	90,800
Write-off of receivable	6	27,463	-
Flow-through premium	8	(2,290)	-
Gain on debt settlement		(6,200)	(34,292)
Gain on disposal of marketable securities		-	(83,961)
Total other expense (income)		2,741,628	(7,906)
Net loss for the year		3,812,934	592,566
Other comprehensive loss (gain)			
Unrealized loss (gain) on marketable securities		-	(24,000)
Comprehensive loss for the year		\$ 3,812,934	\$ 395,641
Loss per share			
Basic		\$ 0.08	\$ 0.01
Weighted average number of common shares outstanding		47,338,853	32,398,490

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year Ended February 28,	
	2019	2018
Operating Activities:		
Net loss for the year	\$ (3,812,934)	\$ (592,566)
Adjustment for items which do not involve cash:		
Bad debt	8,466	-
Depreciation	-	1,662
Gain on debt settlement	(6,200)	(34,292)
Gain on disposal of marketable securities	-	(83,961)
Impairment of exploration and evaluation assets	2,736,637	90,800
Loss on disposal of equipment	-	8,198
Stock based compensation	358,000	-
Write-off flow-through premium	(2,290)	-
Write-off of receivable	27,463	-
Changes in non-cash working capital components:		
Accounts payable and accrued liabilities	(61,870)	191,235
Prepaid expenses	9,775	46,166
Sales tax and other receivables	3,082	54,501
	(739,871)	(318,257)
Investing Activities:		
Proceeds of disposal of exploration and evaluation assets	182,537	-
Redemption of reclamation bonds	-	50,000
Property payments	(156,386)	(188,555)
Proceeds of disposal of marketable securities	-	108,962
	26,151	(29,593)
Financing Activities:		
Shares issued for cash	566,000	206,850
Share issue costs	(10,370)	-
Shares subscription received	-	245,000
Proceeds from convertible debentures issuance	282,000	-
	837,630	451,850
Net changes in cash and cash equivalents	123,910	104,000
Cash and cash equivalents - beginning of the year	168,668	64,668
Cash and cash equivalents - end of the year	\$ 292,578	\$ 168,668
Non-cash Activities:		
Share issued for debt settlement	\$ 255,000	\$ -

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Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity For the year ended February 28, 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, 2017	Note	31,095,052	16,913,687	-	5,021,571	(237,523)	(19,161,297)	2,536,438
Share issued in private placement		3,447,500	206,850	-	-	-	-	206,850
Debt settlement		-	-	154,700	-	-	-	154,700
Share subscriptions received		-	-	245,000	-	-	-	245,000
Fair value of warrants issued		-	(83,000)	-	83,000	-	-	-
Unrealized gain on disposal of marketable securities		-	-	-	-	24,000	-	24,000
Net loss for the period		-	-	-	-	-	(592,566)	(592,566)
Balance – February 28, 2018		34,542,552	17,037,537	399,700	5,104,571	(213,523)	(19,753,863)	2,574,422
Shares issued in private placements	10(a)	16,220,000	811,000	(245,000)	-	-	-	566,000
Share issue costs	10(a)	-	(10,370)	-	-	-	-	(10,370)
Fair market value of warrants issued	10(b)	-	(423,000)	-	423,000	-	-	-
Share issued for debt settlement	10(a)	5,100,000	255,000	(154,700)	-	-	-	100,300
Share-based compensation	10(c)	-	-	-	358,000	-	-	358,000
Convertible debenture issued – equity portion		-	-	-	12,261	-	-	12,261
Net loss for the period		-	-	-	-	-	(3,812,934)	(3,812,934)
Balance (Deficiency) - February 28, 2019		55,862,552	17,670,167	-	5,897,832	(213,523)	(23,566,797)	(212,321)

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 28, 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 principal 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 consolidated 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 February 28, 2019, the Company has an accumulated deficit of \$23,566,797 (February 28, 2018 - \$19,753,863), a net loss for the year ended February 28, 2019 of \$3,812,934 (February 28, 2018 - \$592,566) and has working capital deficiency of \$224,919 (February 28, 2018 – \$233,927).

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 7, 2018, the Company's common shares commenced trading on a post 2 for 1 consolidation basis. The Company has 55,862,552 post-consolidation shares outstanding at February 28, 2019.

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The significant accounting policies, as disclosed, have been applied consistently to all periods presented in these consolidated financial statements.

Basis of Presentation and Consolidation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated 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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

2. Basis of Preparation - continued

Basis of Presentation and Consolidation - continued

Control is based on whether an investor has power over the investee and the ability to use its power over the investee to affect the amount of the returns.

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. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these annual consolidated financial statements are as follows:

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(b) Short-term Investments

The Company classifies all its investments with maturities greater than three months to one year as short-term investments.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies - continued

(c) Exploration and Evaluation Assets

Exploration and evaluation expenses are charged to earnings as they are incurred until the mineral property reaches the development stage. Significant costs related to property acquisitions are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be depreciated against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned. From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Because the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as exploration and evaluation assets or recoveries when the payments are made or received.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge titles to all of its properties are in good standing.

(d) Restoration Provision

The Company records a liability based on the best estimate of costs for restoration activities that the Company is legally or constructively required to remediate and recognizes the liability when those obligations result from the acquisition, construction, development or normal operations of assets. Restoration provisions are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time and adjusted for changes to the current market-based risk-free discount rate, and the amount of or timing of the underlying cash flows needed to settle the obligation. The associated restoration costs are capitalized as part of the carrying amount of the related property, plant and equipment and amortized on a systematic basis over the expected useful life of the asset.

As at February 28, 2019, the calculation of any possible asset retirement obligation is not considered material.

(e) Impairment of Non-Current Assets

The Company follows the guidance in IFRS 6 – Exploration for and Evaluation of Mineral Resources to determine whether exploration and evaluation assets are impaired. This determination requires significant judgment. Impairment indicators relevant for exploration and evaluation properties include whether the rights to explore the area of interest have expired during the period or will expire in the near future, and the rights are not expected to be renewed, substantive expenditure of further exploration and evaluation is not planned or budgeted, the activities have not lead to a discovery of commercial reserves and the Company has decided not to continue such activities in the area of interest or deteriorating local conditions such that it may become unsafe to continue operations. If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount of the exploration and evaluation assets is less than the carrying amount, an impairment loss would be recorded in the consolidated financial statements.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

(f) Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders equity and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income (loss) includes the holding gains and losses from available-for-sale securities which are not included in net income (loss) until realized.

(g) Income Taxes

The Company uses the balance sheet method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Share-based Payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed in the period the forfeiture occurs.

(i) Share Capital

The Company records in share capital proceeds from share issuances, net of issue costs and any tax effects. The fair value of common shares issued as consideration for mineral properties is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from unit placements are allocated first to warrants based on their fair values, with the residual value allocated to share capital.

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Notes to Consolidated Financial Statements

For the Year Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – *continued*

(j) Loss per Share

Loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Under this method, the weighted average number of common shares used to calculate the dilutive effect in the statement of loss and comprehensive loss assumes that the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the period. In periods where a net loss is incurred, basic and diluted loss per share is the same as the effect of outstanding stock options and warrants would be anti-dilutive.

(k) Flow-Through Shares

Under Canadian income tax legislation, a company is permitted to issue flow-through shares whereby the Company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. For accounting purposes, the proceeds from the issuance of these shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized in other liabilities for this difference. The liability is reduced and the reduction of premium liability is recorded in deferred tax recovery when eligible expenditures are fully incurred.

(l) Mineral Exploration Tax Credits (“METC”)

The Company recognizes METC amounts when the Company’s METC application is approved by the relevant jurisdiction or when the amount to be received can be reasonably estimated and collection is reasonably assured.

(m) Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking “expected loss” impairment model. The following is the Company’s new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Pan Andean Minerals Ltd.

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Notes to Consolidated Financial Statements

For the Year Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies - *continued*

(m) Financial Instruments - *continued*

Financial assets/liabilities	Original Classification IAS 39	New Classification IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost
Convertible debenture	Amortized cost	Amortized cost

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on March 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in Other Comprehensive Income ("OCI") are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to

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Notes to Consolidated Financial Statements

For the Year Ended February 28, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies - continued

(m) Financial Instruments - continued

the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) De-recognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on de-recognition are recognized in profit or loss.

(n) Foreign Currency Translation

The functional currency and, unless otherwise indicated, the presentation currency of the Company is the Canadian ("Cdn") Dollar. The Peruvian subsidiaries' transactions not in Cdn Dollars are translated into Cdn Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the statement of financial position dates;
- non-monetary assets and liabilities at the applicable historical exchange rates; and
- revenues and expenses at the average rates of exchange for the period.

Exchange gains and losses arising from the conversion of foreign currency balances and transactions are reported in profit or loss as they occur.

(o) Accounting standards and interpretations issued but not yet effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2019. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 16, *Leases*, addresses accounting for leases and lease obligations and replaces the leasing guidance in IAS 17, *Leases*. The standard requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this amendment on its consolidated

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3. Summary of Significant Accounting Policies - continued

(o) Accounting standards and interpretations issued but not yet effective - continued

financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Sales tax and other receivables

	February 28, 2019	February 28, 2018
Sales tax (GST)	\$ 9,676	\$ 5,727
Other receivables	854	10,854
Total	\$ 10,530	\$ 16,578

5. Reclamation Bonds

As of February 28, 2019, the Company has invested a total of \$5,500 (February 28, 2018 - \$5,500) in a GIC with a Canadian financial institution as part of various Safe-Keeping Agreements entered into by the Company for an exploration property that was sold in fiscal 2017. Such deposits were to be released once the purchaser for the property had arranged its own safe-keeping agreement. During the year ended February 28, 2019, the Company was informed that the purchaser of the property would not arrange its own safe-keeping arrangement. As at February 28, 2019, the Company decided to write-off the value of the reclamation bonds.

6. 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

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6. Exploration and Evaluation Assets and Expenditures - continued

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:

	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, 2017	3,999,659	3,738,558	315,424	9,570	912,811	1,411,786	124,542	10,512,350
E & E expenses	11,595	-	-	-	-	-	66,077	77,672
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

(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 February 28, 2019, the Company had received a total of \$182,537 from the purchaser.

At closing, the purchaser shall grant to the Company the existing NSR in effective 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.

See Note 16(b).

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6. 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. As at the year ended February 28, 2019, the Company decided to write-off the property.

(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. See note 10(a).

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

	Payment	Cumulative Vested Interest
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

As at February 28, 2019, the Company has decided to write-down the value of the property to \$1 because the Company no longer intends to pursue any further interest under the Tres Agreement.

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7. Trade Payables and Accrued Liabilities

	February 28, 2019	February 28, 2018
Trade payables	\$ 242,910	\$ 303,980
Accrued liabilities	17,000	124,300*
Total	\$ 259,910	\$ 428,280

*On December 14, 2018, at the Company's AGM shareholders passed resolutions approving the issue of 2,006,000 common shares to settle outstanding debt of \$100,300 owing to two former directors of the Company (see Note 11).

8. Flow-through Premium Liability

During the fiscal year period ended February 28, 2017, the Company issued 279,000 flow-through units priced at \$0.05 per unit for total proceeds of \$27,900. These funds were used for qualifying exploration expenditures and were renounced to the flow-through shareholders effective December 31, 2016. A \$2,290 flow-through share premium liability was recorded during the year ended February 28, 2017. During the period from December 31, 2016 to February 28, 2019, the Company spent \$27,900 in flow-through expenditures. As at February 28, 2019, the Company extinguished the flow-through premium liability.

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. See Note 16(e) & (h) for conversions subsequent to February 28, 2019.

10. Share Capital

(a) Share Capital

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

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.

On November 8, 2018, the Company agreed to release the remaining 3,336,000 shares held in the escrow under the Tres Agreement to the former three directors (see Note 6 (c)).

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10. Share Capital – continued

(a) Share Capital - continued

Shares for debt settlement

On February 15, 2018, pursuant to debt settlement agreements, the Company agreed to issue 5,100,000 common shares at a deemed price of \$0.05 to settle debts in the amount of \$289,163 to two former directors, subject to regulatory approval. 3,094,000 of such shares were issued on May 23, 2018 and the balance of 2,006,000 will be issued upon shareholder approval. The Company recorded a gain on debt settlement of \$34,163 for year ended February 28, 2018. The amount of indebtedness represents outstanding payments of consulting fees indebted to three former directors of the Company.

On December 14, 2018, the Company issued the remaining 2,006,000 common shares at a deemed price of \$0.05 per share to two 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.

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.

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10. Share Capital – continued

(b) Share Purchase Warrants

As at February 28, 2019, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants	Remaining Years
May 19, 2019 (note 16(c))	\$1.00	322,800	0.22
July 2, 2019	\$1.00	204,250	0.34
October 13, 2019	\$0.12	3,447,500	0.62
November 30, 2019	\$0.50	20,000	0.75
March 16, 2020	\$0.10	6,700,000	1.05
September 17, 2020	\$0.10	3,660,000	1.55
December 20, 2020	\$0.10	2,200,000	1.81
Total warrants outstanding		16,554,550	
Weighted average price	\$0.13		
Average remaining years			1.15

(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.

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.

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10. Share Capital – continued

(c) Stock Options

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.

At February 28, 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	4.06	2,400,000
February 28, 2024	\$0.06	3,100,000	5.00	3,100,000

11. 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.

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.

	February 28, 2019	February 28, 2018
Consulting fees and professional fees	\$ 10,525	\$ 45,702
Reimbursable expenses	6,060	-
	\$ 16,585	\$ 45,702

The remuneration of directors and other members of key management personnel during the year ended February 28, 2019 and 2018 were as follows:

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11. Related Party Transactions – continued

	February 28, 2019	February 28, 2018
Consulting fees	\$ 221,396	\$ 246,077
Professional fees	30,000	70,915
Stock based compensation	215,160	-
	<u>\$ 466,556</u>	<u>\$ 316,992</u>

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

On February 15, 2018, pursuant to debt settlement agreements and subject to regulatory approval the Company agreed to issue 5,100,000 common shares at a deemed price of \$0.05 to settle debts in the amount of \$289,163. The amount of indebtedness represented outstanding payments of consulting fees indebted to three directors of the Company. The Company issued 3,094,000 common shares on May 23, 2018 and the balance of 2,006,000 common shares on December 14, 2018.

On November 9, 2018, the Company entered into a settlement agreement with three former directors. Pursuant to the agreement, the Company agreed to release the remaining 3,336,000 shares held in the escrow under the Tres Agreement and to pay \$32,350 to the three former directors.

12. Segmented Information

The Company has one business segment, the exploration of mineral properties. The information on a segmented basis is as follows:

	February 28, 2019	February 28, 2018
Peru	\$ 1	\$ 2,560,619
Canada	-	229,663
	<u>\$ 1</u>	<u>\$ 2,790,252</u>

13. Commitments

As at February 28, 2019, the Company had a remaining lease commitment of two months at \$6,296 for basic rent per month plus operating costs pursuant to an agreement expiring April 30, 2019 for office space.

The Company extended its lease agreement for office space in November 2018 with the extension taking effect May 1, 2019 and the remaining period running through April 30, 2022. Minimum annual commitments for basic rent, excluding additional operating costs, 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.

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14. 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 February 28, 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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15. Income Taxes

- (a) The income tax provision for the year differs from the amount obtained by applying the statutory income tax rates as follows:

	February 28, 2019	February 29, 2018
Loss before income taxes	\$ (3,812,934)	\$ (592,566)
Statutory tax rates	27.56%	26.14%
Expected tax recovery	(1,050,931)	(154,905)
Adjustments:		
Other temporary and permanent differences	874,672	16,507
Unrecognized benefit of loss carry-forwards	176,259	138,398
Income tax recovery	\$ -	\$ -

- (b) The components of the Company's deferred income tax asset balances were follows:

	February 28, 2019	February 29, 2018
Non-capital loss carry-forwards	\$ 2,301,700	\$ 2,046,463
Financing costs	12,793	13,141
Other	62,261	44,280
Exploration and evaluation assets - (tax basis in excess of book value)	1,143,134	1,176,736
Unrecognized deferred tax asset	(3,519,888)	(3,280,620)
Deferred income tax asset (liability)	\$ -	\$ -

The effective income tax rate is the rate that is estimated to be applicable when timing differences reverse.

- (c) Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets/(liabilities) have been recognized are attributable to the following:

	February 28, 2019	February 29, 2018
Non-capital losses	\$ 8,515,000	\$ 7,810,000
Capital losses	100,267	-
Property and equipment	23,565	62,493
Exploration and evaluation expenditures	4,233,829	4,497,943
Financing costs	47,383	50,231
Marketable securities	106,762	106,762
	\$ 13,026,806	\$ 12,527,428

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15. Income Taxes - continued

- (d) The Company has Canadian non-capital losses which may be applied to reduce future years' taxable income in Canada. As at February 28, 2019, these non-capital losses amounted to approximately \$8,409,000 (February 28, 2018 – \$7,810,000). These non-capital losses expire as follows:

Year	Amount
2026	\$ 14,000
2027	437,000
2028	1,085,000
2029	744,000
2030	654,000
2031	797,000
2032	972,000
2033	769,000
2034	546,000
2035	250,000
2036	271,000
2037	739,000
2038	492,000
2039	639,000
	<u>\$ 8,409,000</u>

The Company also has approximately \$106,000 in non-capital losses in its Peruvian subsidiaries which may be applied to reduce future years' taxable income in Peru.

16. Subsequent Events

- (a) On March 11, 2019, the Company entered into binding letter of intent (the "LOI") with North Star Holdings ("North Star"). North Star is a fully integrated producer, processor and distributor of medicinal and adult use cannabis with operations in various states in the U.S. including Colorado, California and Nevada. The LOI outlines the proposed terms and conditions pursuant to which the Company and North Star will effect a business combination that will result in a reverse takeover of the Company by the security holders of North Star.
- (b) On April 9, 2019, the Company entered the second amendment to the purchase agreement with Pembridge (see Note 6(a)). 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 balance of payment of \$27,463 was replaced with 100,000 Pembridge ordinary shares (see Note 6(a)).
- (c) On May 19, 2019, 322,800 warrants expired.
- (d) On May 22, 2019, the Company closed a private placement of 2,500,000 shares at a price of \$0.12 for gross proceeds of \$300,000.
- (e) On June 5, 2019, \$80,000 of the convertible debenture balance payable at February 28, 2019 was converted into 1,142,857 common shares.

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16. Subsequent Events - continued

- (f)** On June 25, 2019, the Company announced the termination of LOI with North Star. The Company continues to evaluate alternative assets and businesses with a view to completing change of business or reverse take-over transaction as soon as practicable and anticipates the Company's common shares shall remain halted until such time as a transaction is closed.
- (g)** On June 25, 2019, the Company closed a debt financing for an aggregate principal amount of \$400,000. The loan bears interest at an annual rate of 5%, payable annually.
- (h)** On June 25, 2019, a further \$100,000 of convertible debenture balance payable at February 28, 2019 was converted into 1,428,571 common shares.