



(An Exploration Stage Company)

Audited Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(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 29, 2020 and February 28, 2019, 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 29, 2020 and February 28, 2019, 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
July 2, 2020

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

| Assets | February 29, 2020 | February 28, 2019 |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 201,546 | \$ 292,578 |
| Sales tax and other receivables (Note 5) | 13,145 | 10,530 |
| Prepaid expenses | 14,600 | 1,622 |
| Marketable securities (Note 4) | 17,730 | - |
| | 247,021 | 304,730 |
| Non-Current Assets: | | |
| Deposits | 12,597 | 12,597 |
| Right-of-use asset (Notes 3(o) and 10) | 129,504 | - |
| Exploration and evaluation assets (Note 6) | 1 | 1 |
| Total Assets | \$ 389,123 | \$ 317,328 |
| Liabilities and Equity | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities (Note 8 and 12) | \$ 159,319 | \$ 259,910 |
| Convertible debentures (Note 9) | - | 269,739 |
| Convertible debenture interest payable (Note 9) | 5,294 | - |
| Lease liability – current portion (Notes 3(o) and 10) | 58,755 | - |
| | 223,368 | 529,649 |
| Lease liability – long-term (Notes 3(o) and 10) | 83,093 | - |
| Total Liabilities | 306,461 | 529,649 |
| Shareholders' Equity (Deficiency): | | |
| Share capital (Note 11) | 18,935,514 | 17,670,167 |
| Share subscriptions received (Note 11) | 25,000 | - |
| Reserves (Note 11) | 5,993,711 | 5,897,832 |
| Accumulated other comprehensive loss | (213,523) | (213,523) |
| Deficit | (24,658,040) | (23,566,797) |
| Total Equity (Deficiency) | 82,662 | (212,321) |
| Total Liabilities and Equity | \$ 389,123 | \$ 317,328 |

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 14)

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

| | For Year Ended | |
|--|---------------------|---------------------|
| | February 29, 2020 | February 28, 2019 |
| Expenses | | |
| Amortization (Notes 3(o) and 10) | \$ 58,888 | \$ - |
| Bad debt | - | 8,466 |
| Consulting and management fees (Note 12) | 537,160 | 279,610 |
| Corporate listing and filing fees | 34,665 | 48,214 |
| Debt financing fees | - | 7,000 |
| Exploration and evaluation expenses | - | 62,530 |
| Investor relations | 13,761 | 4,151 |
| Office and general | 37,392 | 36,874 |
| Professional fees (Note 12) | 144,551 | 138,804 |
| Rent (Notes 3(o) and 10) | 90,188 | 156,669 |
| Stock-based compensation | - | 358,000 |
| Sublease income (Notes 3(o) and 10) | (79,627) | (91,577) |
| Travel | 231,626 | 62,565 |
| Loss from operations | 1,068,604 | 1,071,306 |
| Other expense (income) | | |
| Accretion – convertible debentures (Note 9) | 6,737 | - |
| Flow-through premium | - | (2,290) |
| Gain on debt settlement | (5,775) | (6,200) |
| Impairment of exploration and evaluation assets (Note 6) | - | 2,736,637 |
| Interest and miscellaneous income | (8,457) | (1,062) |
| Interest expense – convertible debentures (Note 9) | 15,495 | - |
| Interest expense – lease liabilities (Notes 3(o) and 10) | 28,539 | - |
| Loss (gain) on foreign exchange | 1,788 | (12,920) |
| Unrealized loss on marketable securities (Note 4) | 4,470 | - |
| Write-off (recovery) of receivables (Notes 4 and 6) | (22,029) | 27,463 |
| Total other expense | 20,768 | 2,741,628 |
| Net loss and comprehensive loss for the year | \$ 1,089,372 | \$ 3,812,934 |
| Loss per share | | |
| Basic | \$ 0.02 | \$ 0.08 |
| Weighted average number of common shares outstanding | 64,576,330 | 47,338,853 |

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

| | For Year Ended | |
|---|--------------------|-------------------|
| | February 29, 2020 | February 28, 2019 |
| Operating Activities: | | |
| Net loss for the year | \$ (1,089,372) | \$ (3,812,934) |
| Adjustment for items which do not involve cash: | | |
| Bad debt | - | 8,466 |
| Amortization | 58,888 | - |
| Gain on debt settlement | (5,775) | (6,200) |
| Impairment of exploration and evaluation assets | - | 2,736,637 |
| Accretion – convertible debentures | 6,737 | - |
| Stock-based compensation | - | 358,000 |
| Flow-through premium | - | (2,290) |
| Unrealized loss on marketable securities | 4,470 | - |
| Write-off (recovery) of receivables | (22,029) | 27,463 |
| Changes in non-cash working capital components: | | |
| Accounts payable and accrued liabilities | (106,366) | (61,870) |
| Convertible debenture interest payable | 5,294 | - |
| Prepaid expenses | (12,978) | 9,775 |
| Sales tax and other receivables | (2,786) | 3,082 |
| | (1,152,367) | (739,871) |
| Investing Activities: | | |
| Proceeds of disposal of exploration and evaluation assets | - | 182,537 |
| Property option payments | - | (156,386) |
| | - | 26,151 |
| Financing Activities: | | |
| Shares issuances – private placements | 1,200,000 | 566,000 |
| Shares issuance - warrants exercise | 30,000 | - |
| Share issuance costs | (43,250) | (10,370) |
| Share subscriptions received | 25,000 | - |
| Repayment of convertible debentures | (102,000) | - |
| Proceeds from convertible debentures issuance | - | 282,000 |
| Principal portion of lease liability repayments | (48,415) | - |
| | 1,061,335 | 837,630 |
| Net changes in cash and cash equivalents | (91,032) | 123,910 |
| Cash and cash equivalents - beginning of the year | 292,578 | 168,668 |
| Cash and cash equivalents - end of the year | \$ 201,546 | \$ 292,578 |
| Non-cash Activities: | | |
| Share issued from convertible debenture conversion (Note 9) | \$ 182,302 | \$ - |

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

For the year ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

| | Notes | SHARE CAPITAL | | SHARES TO BE | RESERVES | ACCUMULATED | DEFICIT | TOTAL EQUITY |
|---|----------|-------------------|-------------------|---------------|------------------|---|---------------------|---------------|
| | | SHARES | AMOUNT | ISSUED | | OTHER COMPREHENSIVE LOSS ("AOCL") | | |
| Balance – February 28, 2018 | | 34,542,552 | 17,037,537 | 399,700 | 5,104,571 | (213,523) | (19,753,863) | 2,574,422 |
| Share issued – private placements | | 16,220,000 | 811,000 | (245,000) | - | - | - | 566,000 |
| Debt settlement | | 5,100,000 | 255,000 | (154,700) | - | - | - | 100,300 |
| Share-based compensation | | - | - | - | 358,000 | - | - | 358,000 |
| Share issue costs | | - | (10,370) | - | - | - | - | (10,370) |
| Fair value of warrants issued | | - | (423,000) | - | 423,000 | - | - | - |
| Convertible debenture issued | | - | - | - | 12,261 | - | - | 12,261 |
| Net loss for the year | | - | - | - | - | - | (3,812,934) | (3,812,934) |
| Balance – February 28, 2019 | | 55,862,552 | 17,670,167 | - | 5,897,832 | (213,523) | (23,566,797) | (212,321) |
| Impact on adopting IFRS 16 | 3(o), 10 | - | - | - | - | - | (1,871) | (1,871) |
| Restated opening balance under IFRS 16 | | 55,862,552 | 17,670,167 | - | 5,897,832 | (213,523) | (23,568,668) | (214,192) |
| Shares issued – private placements | 11(a) | 11,500,000 | 1,084,000 | - | 116,000 | - | - | 1,200,000 |
| Share issue costs | 11(a) | - | (43,250) | - | - | - | - | (43,250) |
| Shares issued – convertible debenture conversions | 9, 11(a) | 2,571,428 | 182,302 | - | (7,826) | - | - | 174,476 |
| Shares issued – warrants exercise | 11(a) | 300,000 | 42,295 | - | (12,295) | - | - | 30,000 |
| Share subscriptions received | | - | - | 25,000 | - | - | - | 25,000 |
| Net loss for the year | | - | - | - | - | - | (1,089,372) | (1,089,372) |
| Balance - February 29, 2020 | | 70,233,980 | 18,935,514 | 25,000 | 5,993,711 | (213,523) | (24,658,040) | 82,662 |

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Pan Andean Minerals Ltd. (the “Company” or “Pan Andean”) is currently 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 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 29, 2020, the Company has an accumulated deficit of \$24,658,040 (February 28, 2019 - \$23,566,797), a net loss for the year ended February 29, 2020 of \$1,089,372 (February 28, 2019 - \$3,812,934) and has working capital of \$23,653 (February 28, 2019 – \$224,919 working capital deficiency).

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 January 10, 2020, the company announce a proposed change of business (the “Proposed COB”) from mineral exploration to a Canadian cannabis enterprise. The Company intends to apply to the TSX Venture Exchange (the “TSXV”) to have its common shares delisted from the TSXV and relist onto the Canadian Securities Exchange (the “CSE”) upon completion of the Proposed COB. The Company’s common shares were halted from trading due to proposed COB. As at July 2, 2020, the Company’s common shares remain halted.

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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(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.

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.

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 incremental rate of borrowing used in the measurement of the lease liability was based on estimated interest rate the Company would borrow at from arm's-length third parties as at the dates of adopting IFRS 16 and entering into its current long-term office lease.
- iii) The inputs used in accounting for share-based compensation expense included in profit or loss calculated using the Black-Scholes option pricing model.
- iv) 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.
- v) 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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies - continued

(b) Short-term Investments

The Company classifies all its investments with maturities of less than one year as short-term investments.

(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 29, 2020, 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 29, 2020 and February 28, 2019

(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.

(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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(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.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(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 |
| Marketable securities | Available for sale | FVTPL |
| Accounts payable | Amortized cost | Amortized cost |
| Due to related parties | Amortized cost | Amortized cost |
| Convertible debenture | Amortized cost | Amortized cost |
| Lease liability | N/A | 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 loss and 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 loss and comprehensive loss in the periods 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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies - continued

(m) Financial Instruments - continued

since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to 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) 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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – *continued*

(o) IFRS 16 – Leases - *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. 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.

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.

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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

(o) IFRS 16 – Leases - continued

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.

The reconciliation of the Company's lease liability as at March 1, 2019 is as follows:

| | |
|--|----------------|
| | <u>\$</u> |
| Future aggregate minimum lease payments | 12,593 |
| Effect of discounting at the incremental rate of borrowing | <u>(1,643)</u> |
| Lease liability as at March 1, 2019 | <u>10,950</u> |

4. Marketable Securities

In December 2019, the Company received 100,000 shares from Pembridge Resources Plc ("Pembridge") (Note 6 (a)) after Pembridge started trading on the London Stock Exchange under the ticker code "PERE". These shares had a fair value of CAD\$22,200 at the time of receipt. As at February 29, 2020, the Pembridge Shares traded at GBP10.25 per share and the fair value of the 100,000 shares was CAD\$17,730.

| | 2020 | 2019 |
|------------------------------------|-----------|------|
| Marketable securities – fair value | \$ 17,730 | \$ - |
| Marketable securities – cost | \$ 22,200 | \$ - |

5. Other Receivables

| | February 29, 2020 | February 28, 2019 |
|-------------------|-------------------|-------------------|
| Sales tax (GST) | \$ 13,145 | \$ 9,676 |
| Other receivables | - | 854 |
| Total | \$ 13,145 | \$ 10,530 |

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

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 and February 29, 2020 | - | - | 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:

| | 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 and February 29, 2020 | 4,058,224 | 3,738,558 | 315,424 | 9,570 | 912,811 | 1,411,786 | 206,179 | 10,652,552 |

(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. 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 obtained a listing on the standard

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets and Expenditures - *continued*

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

segments of the official list of the Financial Conduct Authority 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 and decided to write-off the final balance of the payment of \$27,463.

At closing, the purchaser confirmed 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 listed 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. In December 2019, the Company received the 100,000 Pembridge ordinary shares initially valued at \$22,200.

(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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets and Expenditures - *continued*

(c) Chanape and Pucacorrall, Peru - *continued*

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.

7. 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 29, 2020, the

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

7. Financial Risk and Capital Management - continued

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 and marketable securities are measured at fair value using Level 1 inputs.

8. Accounts Payable and Accrued Liabilities

| | February 29, 2020 | February 28, 2019 |
|---------------------|-------------------|-------------------|
| Trade payables | \$ 145,319 | \$ 242,910 |
| Accrued liabilities | 14,000 | 17,000 |
| Total | \$ 159,319 | \$ 259,910 |

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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

9. Convertible Debentures - continued

In June 2019, \$180,000 of convertible debenture principal was converted to 2,571,428 common shares of the Company at \$0.07 per share. The accreted carrying balance of the converted convertible debentures totaling \$174,476 and the equity portion of the convertible debentures in the amount of \$7,826 were transferred to share capital.

On February 28, 2020, the remaining \$102,000 convertible debenture principal was repaid to the debenture holders. For the year ended February 29, 2020, the Company incurred accretion expense on the convertible debentures of \$6,737 (2019 - \$Nil) and interest expense of \$15,495 (2019 - \$Nil). As at February 29, 2020, no remaining convertible debenture principal was payable (February 28, 2019 - \$282,000) and accrued interest payable related to the convertible debenture was \$5,294 (February 28, 2019 - \$Nil). Changes in the carrying value of the convertible debentures during the year ended February 29, 2020 are reconciled below:

| | February 29, 2020 | February 28, 2019 |
|---|-------------------|-------------------|
| Convertible debenture – beginning of the year | \$ 269,739 | \$ 282,000 |
| Allocation of equity portion to reserves | - | (12,261) |
| Accretion | 6,737 | - |
| Conversion to common shares | (174,476) | - |
| Principal repayment | (102,000) | - |
| Carrying value – end of the year | \$ - | \$ 269,739 |

10. Right-Of-Use Assets & Lease Liabilities

As at March 1, 2019, the Company had a remaining lease commitment of \$6,296 of basic rent per month plus operating costs for two months pursuant to a lease agreement expiring April 30, 2019.

The Company extended its lease agreement for office space effective May 1, 2019 until April 30, 2022. Minimum annual commitments for basic rent, excluding additional operating costs, at May 1, 2019 were as follows:

| Year | Amount |
|------|-------------------|
| 2020 | \$ 64,362 |
| 2021 | 80,032 |
| 2022 | 83,390 |
| 2023 | 13,992 |
| | \$ 241,776 |

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

10. Right-Of-Use Assets & Lease Liabilities - *continued*

a) Right-of-use assets

As at February 29, 2020, the right-of-use asset recorded for the Company's office premises was as follows:

| | 2020 |
|--|----------------|
| | \$ |
| As at February 28, 2019 | - |
| IFRS 16 adoption – May 2016 to April 2019 lease | 9,079 |
| Amortization | (9,079) |
| May 2019 to April 2022 lease – initial recognition | 179,313 |
| Amortization | (49,809) |
| As at February 29, 2020 | <u>129,504</u> |

b) Lease liabilities

Minimum lease payments in respect of lease liabilities and the effect of discounting as at February 29, 2020 are as follows:

| | 2020 |
|---|---------------|
| | \$ |
| Undiscounted minimum lease payments: | |
| Less than one year | 80,032 |
| More than one year | 97,382 |
| Total undiscounted minimum lease payments | 177,414 |
| Effect of discounting | (35,566) |
| Present value of minimum lease payments | 141,848 |
| Less: current portion | (58,755) |
| Long-term portion | <u>83,093</u> |

c) Lease liabilities continuity

The net change in the Company's lease liability during the year ended February 29, 2020 was as follows:

| | 2020 |
|--|----------------|
| | \$ |
| As at February 28, 2019 | - |
| IFRS 16 adoption – May 2016 to April 2019 lease | 10,950 |
| Principal payments | (10,950) |
| May 2019 to April 2022 lease – initial recognition | 179,313 |
| Principal payments | (37,465) |
| As at February 29, 2020 | <u>141,848</u> |

The Company incurred interest expense of \$28,539 on its lease liabilities for the year ended February 29, 2020 (2018 – \$nil), incurred \$27,072 of rent expenses (February 28, 2019 - \$17,500) pursuant to short-term leases and received sublease income of \$79,627 (February 28, 2019 - \$91,577) as a result of subleasing a portion of its office space.

See Note 3(o).

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

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

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

Year Ended February 28, 2019

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, with 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.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

11. Share Capital – continued

Private Placements

Year Ended February 29, 2020

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, with 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 value of the 4,500,000 warrants was calculated at \$116,000 and was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 1.40% risk free interest rate, expected life of 2 years, 165.56% annualized volatility and 0% dividend rate. \$43,250 in cash share issue costs were paid in conjunction with the private placement.

Convertible Debenture Conversion

Year Ended February 29, 2020

In June 2019, \$180,000 of convertible debenture principal outstanding was converted to 2,571,428 common shares of the Company at \$0.07 per share. The \$174,476 accreted carrying value and \$7,826 equity portion of the convertible debenture principal was transferred to share capital on conversion

See Note 9.

Warrants Exercise

Year Ended February 29, 2020

In May 2019, 300,000 share purchase warrants exercisable at \$0.10 per share were exercised for gross proceeds of \$30,000. The \$12,295 value of these warrants was reclassified from reserves to share capital upon exercise.

(b) Share Purchase Warrants

As at February 29, 2020, the following warrants were outstanding:

| Expiry Date | Exercise Price | Number of Warrants | Remaining Years |
|-----------------------------------|----------------|--------------------|-----------------|
| March 16, 2020 | \$0.10 | 6,700,000 | 0.04 |
| September 17, 2020 | \$0.10 | 3,360,000 | 0.54 |
| December 20, 2020 | \$0.10 | 2,200,000 | 0.81 |
| August 21, 2021 | \$0.30 | 4,500,000 | 1.48 |
| Total warrants outstanding | | 16,760,000 | |
| Weighted average price | \$0.15 | | |
| Average remaining years | | | 0.63 |

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

11. Share Capital – continued

(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.

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.

Year Ended February 29, 2020

There were no options granted during the year ended February 29, 2020.

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

11. Share Capital – continued

(c) Stock Options - continued

At February 29, 2020, 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 | 3.06 | 2,400,000 |
| February 28, 2024 | \$0.06 | 3,100,000 | 4.00 | 3,100,000 |

(d) Shares Subscribed

In February 2020, the Company received \$25,000 pursuant to the subscription for 312,500 units at \$0.08 per unit, with each unit consisting of one Company common share and one-half of one share purchase warrant, where a full share purchase warrant is exercisable at \$0.30 per share for 24 months after closing, subject to accelerated expiry with 30 days' notice if the Company's common shares close at a market price of \$0.50 or greater for ten consecutive trading days.

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.

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 29, 2020 | February 28, 2019 |
|------------------------|-------------------|-------------------|
| Due to related parties | \$ - | \$ 10,525 |

The remuneration of directors and other members of key management personnel during the year ended February 29, 2020 and February 28, 2019 were as follows:

| | February 29, 2020 | February 28, 2019 |
|--------------------------|-------------------|-------------------|
| Management fees | \$ 244,700 | \$ 221,396 |
| Professional fees | 43,000 | 30,000 |
| Stock based compensation | - | 215,160 |
| | \$ 287,700 | \$ 466,556 |

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

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

13. Income Tax

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

| | February 29, 2020 | February 28, 2019 |
|---|-------------------|-------------------|
| Loss before income taxes | \$ (1,089,372) | \$ (3,812,934) |
| Statutory tax rates | 27.00% | 27.56% |
| Expected tax recovery | (294,101) | (1,050,931) |
| Adjustments: | | |
| Other temporary and permanent differences | (3,357) | 874,672 |
| Unrecognized benefit of loss carry-forwards | 297,458 | 176,259 |
| Income tax recovery | \$ - | \$ - |

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

| | February 29, 2020 | February 28, 2019 |
|---------------------------------------|-------------------|-------------------|
| Non-capital loss carry-forwards | \$ 2,659,720 | \$ 2,301,700 |
| Financing costs | 16,677 | 12,793 |
| Other | 71,939 | 62,261 |
| Exploration and evaluation assets | 1,138,739 | 1,143,134 |
| Unrecognized deferred tax asset | (3,887,075) | (3,519,888) |
| Deferred income tax asset (liability) | \$ - | \$ - |

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

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 29, 2020 | February 28, 2019 |
|---|-------------------|-------------------|
| Non-capital losses | \$ 9,841,000 | \$ 8,515,000 |
| Capital losses | 100,267 | 100,267 |
| Property and equipment | 66,042 | 23,565 |
| Exploration and evaluation expenditures | 4,217,552 | 4,233,829 |
| Financing costs | 61,766 | 47,383 |
| Marketable securities | 100,132 | 106,762 |
| | \$ 14,386,759 | \$ 13,026,806 |

Pan Andean Minerals Ltd.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the Year Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

14. Subsequent Events

Subsequent to February 29, 2020, the following events occurred:

- (a) On March 9, 2020, the Company received a \$100,000 unsecured loan bearing interest, payable semi-annually, at a rate of 4% per annum, with outstanding principal due and payable on March 6, 2021.
- (b) On March 16, 2020, 6,700,000 warrants expired.
- (c) On March 24, 2020, the Company received a 1 billion South Korean Won (\$1,143,511) unsecured loan bearing interest, payable semi-annually, at a rate of 4% per annum, with outstanding principal due and payable on March 31, 2021. The Company paid \$80,046 in cash finder's fees pursuant to this loan financing.