

PANORO MINERALS LTD.

Annual Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars, unless otherwise stated)

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Panoro Minerals Ltd. (“the Company”) and related information presented in this financial report are the responsibility of the Company’s management and have been approved by the Board of Directors. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management’s best estimates and judgments based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company’s assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which is comprised of a majority of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by KPMG LLP on behalf of the shareholders and their report follows.

“Luquman A. Shaheen” (signed)

Luquman A. Shaheen
President and Chief Executive Officer

VANCOUVER, BRITISH COLUMBIA

“Shannon M. Ross” (signed)

Shannon M. Ross
Chief Financial Officer

VANCOUVER, BRITISH COLUMBIA



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Panoro Minerals Ltd.

Opinion

We have audited the consolidated financial statements of Panoro Minerals Ltd. ("the Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended,
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 2 in the financial statements, which indicates that the Entity has no current sources of revenue, incurred a loss during the year ended December 31, 2019, had an accumulated deficit at December 31, 2019 and its ability to carry out its planned business objectives is dependent on its ability to raise adequate financing to continue the exploration and ultimate development of its mineral properties.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity'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. Other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in

our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Robert Ryan Owsnett, CPA, CA.

Vancouver, Canada
May 14, 2020

PANORO MINERALS LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars, unless otherwise stated)
As at December 31, 2019 and 2018

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents		\$ 470,085	\$ 456,779
Short-term investments		-	1,732,530
Marketable securities		300	1,667
Accounts and advances receivable		281,440	112,768
Prepaid expenses		31,790	30,820
Total current assets		783,615	2,334,564
Non-current assets			
Exploration and evaluation assets	5	75,666,265	77,483,504
Property and equipment	6,7	82,581	12,220
Total assets		\$ 76,532,461	\$ 79,830,288
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	11,12	\$ 1,498,002	\$ 1,405,128
Current portion of lease liabilities	7	78,827	-
Liabilities under Early Deposit Precious Metals Agreement	8	8,442,200	6,821,000
		10,019,029	8,226,128
Lease liabilities	7	17,965	-
Liabilities under Early Deposit Precious Metals Agreement	8	2,597,600	2,728,400
Total liabilities		12,634,594	10,954,528
Shareholders' equity			
Share capital	9(a)	94,000,125	94,000,125
Share-based expense reserve	9(b)	12,180,753	11,946,673
Accumulated other comprehensive loss		(9,700)	(8,333)
Deficit		(42,273,311)	(37,062,705)
Total shareholders' equity		63,897,867	68,875,760
Total liabilities and shareholders' equity		\$ 76,532,461	\$ 79,830,288

Going concern (Note 2)
Subsequent events (Note 8)
Commitments (Note 12)

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

Approved on behalf of the Board:

"Luquman A. Shaheen"

"William J. Boden"

PANORO MINERALS LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars, unless otherwise stated)

For the years ended December 31, 2019 and 2018

	2019	2018
Expenses		
Amortization (Note 6)	\$ 113,175	\$ 17,068
Audit and tax	147,390	114,719
Communications	61,275	73,679
Consulting	44,134	77,042
Conferences	18,653	33,374
Directors' fees	199,407	195,743
Financial consulting	-	115,970
Corporate development and shareholder relations	152,160	703,153
Legal	127,383	246,264
Office	41,865	40,614
Professional dues and training	10,927	9,692
Regulatory and transfer agent	88,746	130,914
Rental costs and insurance	43,386	183,593
Salaries and benefits (Note 15)	959,567	957,430
Share-based expense (Note 9(b))	208,222	974,410
Travel	80,053	88,456
	<u>2,296,343</u>	<u>3,962,121</u>
Interest expense (Note 7)	15,101	-
Interest income	(9,593)	(13,170)
Hudbay milestone proceeds (Note 5)	(664,650)	-
Write-off of mineral property interest (Note 5)	4,033,509	-
Foreign exchange loss (gain)	6,516	(125,243)
Change in fair value of Early Deposit Precious Metals Agreement financial liability	(495,750)	719,225
	<u>2,885,133</u>	<u>580,812</u>
Loss for the year	5,181,476	4,542,933
Other comprehensive loss, net of tax:		
Unrealized loss on marketable securities	1,367	167
Comprehensive loss for the year	<u>\$ 5,182,843</u>	<u>\$ 4,543,100</u>
Loss per share, basic and fully diluted (Note 16)	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Weighted average number of common shares outstanding (Note 16)	<u>263,837,522</u>	<u>262,972,199</u>

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

PANORO MINERALS LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used for):		
Operating activities:		
Loss for the year	\$ (5,181,476)	\$ (4,542,933)
Items not involving the use of cash:		
Amortization (Note 6)	113,175	17,068
Share-based expense (Note 9(b))	208,222	974,410
Change in fair value of Early Deposit Precious Metals Agreement financial liability	(495,750)	719,225
Interest expense on lease liabilities (Note 7)	15,101	-
Foreign exchange (gain) loss	6,516	(125,243)
Write-off of mineral property interest	4,033,509	-
Hudbay milestone proceeds (Note 5)	(664,650)	-
	(1,965,353)	(2,957,473)
Changes in non-cash operating working capital:		
Accounts and advances receivable	(168,672)	(6,916)
Prepaid expenses	(970)	5,293
Accounts payable and accrued liabilities	7,179	(126,548)
Cash used in operating activities	(2,127,816)	(3,085,644)
Investing activities:		
Purchase of short-term investments	-	(2,628,360)
Redemption of short-term investments	1,732,530	2,401,226
Exploration and evaluation expenditures (Note 5)	(3,068,267)	(4,762,034)
Hudbay milestone proceeds (Note 5)	664,650	-
Recovery of value-added taxes (Note 5)	416,199	58,779
Funds received on JOGMEC earn in agreement	547,957	-
Purchase of equipment	(655)	(5,253)
Cash used in investing activities	292,414	(4,935,642)
Financing activities:		
Early Deposit Precious Metals Purchase Agreement	1,986,150	1,930,425
Interest payment on lease liabilities (Note 7)	(15,101)	-
Repayment of lease liabilities (Note 7)	(117,511)	-
Exercise of warrants and options	-	992,018
Cash provided by financing activities	1,853,538	2,922,443
Effect of foreign exchange on cash held	(4,830)	125,243
Increase (decrease) in cash and cash equivalents	13,306	(4,973,600)
Cash and cash equivalents, beginning of year	456,779	5,430,379
Cash and cash equivalents, end of year	\$ 470,085	\$ 456,779

Supplementary cash flow information (Note 17)

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

PANORO MINERALS LTD.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

	Number of shares	Share capital	Share-based expense reserve	Accumulated other comprehensive loss	Deficit	Total
Balance, December 31, 2017	260,163,382	\$ 93,008,107	\$ 10,817,594	\$ (8,500)	\$ (32,519,772)	\$ 71,297,429
Loss for the year	-	-	-	-	(4,542,933)	(4,542,933)
Other comprehensive loss	-	-	-	167	-	167
Stock option grant (Note 9)	-	-	1,129,079	-	-	1,129,079
Warrants exercised (Note 9)	3,674,140	992,018	-	-	-	992,018
Balance, December 31, 2018	263,837,522	94,000,125	11,946,673	(8,333)	(37,062,705)	68,875,760
Impact of adopting IFRS 16 on January 1, 2019 (Note 7)	-	-	-	-	(29,130)	(29,130)
Balance, January 1, 2019	263,837,522	94,000,125	11,946,673	(8,333)	(37,091,835)	68,846,630
Loss for the year	-	-	-	-	(5,181,476)	(5,181,476)
Other comprehensive loss	-	-	-	(1,367)	-	(1,367)
Stock option grant (Note 9(b))	-	-	234,080	-	-	234,080
Balance, December 31, 2019	263,837,522	\$ 94,000,125	\$ 12,180,753	\$ (9,700)	\$ (42,273,311)	\$ 63,897,867

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

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

1. Nature of operations

Panoro Minerals Ltd. is incorporated under the *Business Corporations Act* in the Province of British Columbia. The Company's principal place of business is located at Suite 1610 – 700 West Pender Street, Vancouver, BC, Canada V6C 1G8.

Panoro Minerals Ltd. and its subsidiaries are referred to as “Panoro” or the “Company.”

The Company is an exploration-stage company engaged principally in the acquisition, exploration and development of mineral properties in Perú and trades on the TSX Venture Exchange (the “Exchange”) as a Tier 2 mining issuer under the trading symbol “PML”. The Company also trades on the Bolsa de Valores de Lima under the same trading symbol.

The Company's investment in its exploration and evaluation assets comprises a significant portion of the Company's assets. Recovery of the carrying value of the investment in these assets and the Company's ability to continue operations are dependent upon the existence of economically recoverable reserves, confirming and maintaining legal ownership of the resource properties, the ability of the Company to obtain necessary financing to complete the exploration and development, and the attainment of future profitable production or the disposition of these assets for proceeds in excess of their carrying values.

2. Going concern

These consolidated financial statements have been prepared on a going concern basis which contemplates 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 business.

The Company has no operating revenue and incurred a loss of \$5,181,476 for the year ended December 31, 2019 (2018 – \$4,542,933). As at December 31, 2019, the Company has an accumulated deficit of \$42,273,311 (2018 - \$37,062,705), and a working capital deficiency of \$9,235,414 (2018 – working capital deficiency of \$5,891,564). Although the Company expects to have sufficient financial resources to cover its existing obligations and operating costs and undertake its currently planned programs for the next year, the Company will require further funding to fund exploration and evaluation activities, and ultimately develop its properties. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms that are acceptable to the Company. These conditions create a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or achieve operating profitability and generate positive cash flows. The Company is in the business of exploring and developing mineral property interests, and as such, must continually seek sources of financing to further develop and explore its mineral exploration and evaluation assets and to support general and administrative expenses.

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

2. Going concern (continued)

The Company will continue to seek additional financing through the sale of mineral property interests, debt financing, equity financing, and optioning its other mineral property interests. However, it is not certain that such financing will be available. The Company may be adversely impacted by a lack of normal available financing, inability to maintain mining licenses, and continued uncertainty in the exchange and commodity markets.

The Company has received US\$8,500,000 from Wheaton Precious Metals International Ltd. (“Wheaton Metals”) pursuant to the Wheaton Precious Metals Purchase Agreement (“Wheaton PMPA”) (See Note 8), and will receive US\$750,000 on a semi-annual basis if it meets the terms under which the funds will be advanced, up to US\$14,000,000 pursuant to the Wheaton PMPA.

These consolidated financial statements do not reflect material adjustments to the carrying values of its assets and liabilities, which may be required should the Company be unable to continue as a going concern. These adjustments could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 (“COVID-19”) a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business, however, the impact of the pandemic could impact our ability to obtain financing to fund exploration activities as well as the ability to conduct our exploration programs.

3. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS comprises IFRSs, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”) and the former Standing Interpretations Committee (“SICs”).

The accounting policies applied in these consolidated financial statements are based on IFRS effective for the year ended December 31, 2019. Certain prior period comparative figures have been reclassified to conform to the current period’s presentation

The consolidated financial statements of the Company for the year ended December 31, 2019, were approved and authorized for issue by the Board of Directors on May 14, 2020.

(b) Functional and reporting currency

The functional and reporting currency of the Company and all of its subsidiaries is the Canadian dollar. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of available-for-sale investments which are recognized in other comprehensive income.

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

3. Basis of presentation (continued)

(c) Critical accounting estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of estimates and assumptions relate to the review of asset carrying values and determination of impairment charges relating to non-current assets, valuation of share-based expense (Note 9(b)), provision for closure and reclamation, and classification and measurement of liabilities under Early Deposit Precious Metals Agreement (Note 8), among others. Actual results could differ from those estimates. Key estimates made by management with respect to the areas noted previously have been disclosed in the notes to these consolidated financial statements as appropriate.

4. Significant accounting policies

(a) Use of judgements

Significant areas requiring judgement relate to the determination of functional currency as disclosed in Note 3(b) and the criteria applicable to a going concern as discussed in Note 2.

In concluding that the Canadian dollar is the functional currency of the parent, and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant, the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained. Management considers funds on hand at year end, planned expenditures and strategic objectives in its assessment. Due to the nature of its business, management reviews and adjusts administrative and exploration expenditures based on available working capital. The Company focuses on its concessions in Perú and maintaining them in good standing by making annual concession payments due in June of each year.

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

4. Significant accounting policies (continued)

(b) Basis of consolidation

The subsidiaries of the Company at December 31, 2019, all of which are wholly-owned, are as follows:

Name of subsidiary	Country of Incorporation	Principal activity
Panoro Apurimac SA	Perú	Mineral exploration
Minera Panoro Perú SAC	Perú	Mineral exploration
Panoro Holdings Ltd.	Canada	Holding company
Antilla Copper SA	Perú	Mineral exploration
Apurimac Copper SA	Perú	Mineral exploration
Promesa Copper SA	Perú	Mineral exploration
Alto Copper SA	Perú	Mineral exploration
Panoro Gold SA	Perú	Mineral exploration
Panoro Copper Royalties Ltd.	Canada	Royalty company
Panoro Pacific Minerals Inc.	Philippines	Holding company
Panoro Trading (Caymans) Ltd.	Cayman Islands	Project financing

The consolidated financial statements of the Company comprise the financial statements of the parent and its wholly-owned subsidiaries as at December 31, 2019. All intercompany transactions and balances have been eliminated on consolidation. The assets and liabilities of a Canadian subsidiary were absorbed by the parent company during the year, and the company was dissolved, and three subsidiaries in Peru filed their final returns and were dissolved during the year.

(c) Foreign currency transactions and operations

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at a fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss.

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

4. Significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with original maturities of ninety days or less from the date of acquisition, and which are readily convertible into known amounts of cash.

(e) Short-term investments

Short-term deposits with original maturities greater than 90 days that are not readily convertible into known amounts of cash are classified as short-term investments. Interest from cash and cash equivalents and short-term deposits is recorded on an accrual basis.

(f) Exploration and evaluation expenditures

Expenditures incurred before legal rights to explore a specific area are obtained are expensed. All acquisition and exploration and evaluation costs are capitalized until such time as the project to which they relate is put into commercial production, sold, abandoned or the recovery of costs is determined to be unlikely. The costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

Upon reaching commercial production, these capitalized costs will be amortized over the estimated reserves on a unit-of-production basis. For properties which do not yet have proven reserves, the amounts shown represent costs to date and are not intended to represent present or future values. The recovery of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain financing to complete exploration and development of the properties, and on future profitable production or proceeds on disposition of the properties. The underlying value of all properties is dependent on the existence and economic recovery of mineral resources in the future which includes acquiring the necessary permits and approvals.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

4. Significant accounting policies (continued)

(g) Impairment of long-lived assets

Management periodically reviews the carrying value of its exploration and evaluation assets with internal mining related professionals. Impairment is determined for the properties by assessing the recoverable amount of each cash generating unit (“CGU”). The Company defines a CGU as each separate property which is the smallest identifiable group of assets that generates cash inflows that are independent of other assets or group of assets. A decision to abandon, reduce or expand a mineral property interest is based upon many factors including the future costs of exploring and developing a specific exploration asset, the expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration.

The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are recoverable.

Where a potential impairment is indicated, assessments are performed for each CGU. To the extent that the exploration and evaluation expenditures are not expected to be recovered, the excess of the carrying value over the recoverable amount is recorded as a write-down in the consolidated statement of comprehensive loss in the period impairment indicators are identified. When a concession is returned to the government, costs directly attributable to the concession are written off. Certain concessions within a CGU may be contiguous to other claims and therefore remain in exploration expenditures.

When the recoverable amount of a property is less than the carrying amount an impairment loss is recognized. Impairment losses relating to the CGUs can be reversed in future periods if circumstances change. The recoverable amount of a property is determined based on the fair value less costs to sell or value-in-use and based on plans to advance the property.

(h) Property and equipment

Property and equipment is recorded at cost and is amortized using a straight-line method over a period of three to five years. Amortization used in exploration and evaluation activities is classified within exploration expenditures, and right-of-use assets are amortized using a straight line method over the term of the lease. The Company previously accounted for amortization on a declining balance basis.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statement of loss and comprehensive loss.

PANORO MINERALS LTD.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)
For the years ended December 31, 2019 and 2018

4. Significant accounting policies (continued)

(i) Income taxes

The Company follows the asset and liability 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, and losses carried forward. Deferred tax assets and liabilities are measured using substantively enacted or enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the substantive enactment date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets that are recognized 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.

(j) Value added taxes recoverable

The Company incurs Impuesto General a las Ventas (“IGV”) in Perú (which is a Peruvian value-added tax). The Company has entered into an agreement with the Ministry of Energy and Mines to recover such amounts which relate to approved properties. IGV paid related to non-approved mineral property expenditures is only recoverable when future sales revenues are earned from the related mineral properties by offsetting the IGV otherwise payable at that time. As the IGV payments incurred on both approved and non-approved mineral property expenditures are uncertain of recovery, they have been included in mineral property exploration expenditures. Any future recoveries of these amounts are offset against the mineral property exploration expenditures.

(k) Accounting for Early Deposit on Precious Metals Purchase Agreement (See Note 8)

Significant judgment was required in determining the appropriate accounting for the Wheaton PMPA with Wheaton Metals. The upfront cash deposits received from future stream transactions have been accounted for as financial liabilities, with the resulting foreign exchange gains and losses recorded through the statements of loss and comprehensive loss as “change in fair value of Early Deposit Precious Metals Agreement financial liability”, on the basis that the deposit amounts received could become repayable under certain circumstances. Amounts that could become immediately repayable in the event the Wheaton PMPA is terminated are reflected within current liabilities.

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4. Significant accounting policies (continued)

(l) Site restoration costs

Where necessary, the Company recognizes an estimate of the liability associated with a site restoration provision in the consolidated financial statements at the time the liability is incurred. Drill sites are remediated and restored on an ongoing basis. The estimated fair value of the site restoration provision is recorded as a current liability, with a corresponding increase in the carrying amount of the related asset. The site restoration provision asset is depreciated in a manner consistent with the underlying asset. The property has no site restoration liability at either December 31, 2019 or December 31, 2018.

(m) Share-based expense

The Company has a stock option plan that is described in Note 9(b). Share-based expenses 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 amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based expense reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based expense reserve is transferred to share capital.

The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of share-based awards granted. Option pricing models require the input of highly subjective assumptions. The expected life of options considers such factors as the average length of time similar option grants in the past have remained outstanding prior to exercise, expiry or cancellation and the vesting period of options granted. Volatility is estimated based on average daily volatility based on historical share price observations over the expected term of the option grant. Changes in the subjective input assumptions can materially affect the estimated fair value of options.

(n) Other comprehensive income (loss)

Other comprehensive income or loss is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Gains and losses that would otherwise be recorded as part of net income or loss are presented in "other comprehensive income" until it is considered appropriate to recognize into net income or loss. The Company reports a consolidated statement of comprehensive loss and includes the account "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated statement of financial position.

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4. Significant accounting policies (continued)

(o) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year, adjusted for shares held by the Company. Diluted loss per share is calculated using the treasury stock method.

Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

(p) Financial instruments

Financial assets

The Company classifies its financial assets 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 classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the entity’s business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets at FVTPL – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses from changes in the fair value of the asset held at FVTPL are included in profit or loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI – Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income or loss. There is no subsequent reclassification of fair value gains and losses to profit or loss following de-recognition of the investment.

Financial assets at amortized cost – Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on de-recognition of financial assets classified as FVTPL or amortized cost are recognized in profit or loss.

Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

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4. Significant accounting policies (continued)

(p) Financial instruments (continued)

Financial liabilities

The Company measures all its financial liabilities (other than liabilities under Early Deposit Precious Metals Agreement, which is measured at fair value through profit or loss), as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The following table shows the classification of liabilities under IFRS 9:

	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Marketable securities	FVTOCI
Accounts and advances receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Liabilities under Early Deposit Precious Metals Agreement	FVTPL

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4. Significant accounting policies (continued)

(q) IFRS standards adopted

There were no new standards effective January 1, 2019, that had a material impact on the Company's consolidated financial statements. IFRS 16 was effected by the Company, without material impact.

IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which replaces IAS 17, *Leases* and its associated interpretative guidance. The most significant effect of the new lease standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have previously been accounted for as operating leases under IAS 17. The Company has elected to exempt both leases with durations of 12 months or less and leases for low-value assets.

Transition

The Company adopted IFRS 16 using the modified retrospective application method, where the 2018 comparative figures were not restated and a cumulative catch up adjustment was recorded on January 1, 2019 for any differences identified. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019.

The Company analyzed its contracts to identify whether they are, or contain, lease arrangements for the application of IFRS 16. This analysis identified contracts that will have an increase to both the Company's right-of-use assets and lease liabilities. As a result, upon adoption, the Company recognized a lease liability of \$212,617, and right-of-use assets of approximately \$183,487, with an impact on the Company's deficit at January 1, 2019, of \$29,130. For additional information, see Note 7.

Accounting policy

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include: determining contracts that are within the scope of IFRS 16; determining the contract term and determining the interest rate used for the discounting of future cash flows.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At lease commencement, the Company recognizes a ROU asset and a lease obligation.

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4. Significant accounting policies (continued)

(q) IFRS standards adopted

IFRS 16, *Leases* (“IFRS 16”)

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date. The lease obligation is subsequently measured at amortized cost using the effective interest method. The present value of the lease payment is determined using the discount rate representing the weighted average incremental borrowing rate the Company could secure.

Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

The lease term determined by the Company comprises the non-cancellable period of lease contracts, the period covered by an option to extend the leases, if the Company is reasonably certain to exercise that option, and the periods covered by an option to terminate the lease, if the Company is reasonably certain not to exercise that option.

The ROU assets are recognized initially at the value of lease liabilities at recognition with any prepaid payments, initial direct costs and dismantling costs less any lease incentives received. The amortization rate of ROU assets is based on the shorter of the useful life of the underlying asset or the lease term determined. There are no restrictions or covenants imposed by the Company’s leases.

IFRIC 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”)

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over tax treatments. IFRIC 23 requires:

- a) An entity to contemplate whether uncertain tax treatment should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- b) An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- c) If it is not probable the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount of expected value, depending on whichever method better predicts the resolution of the uncertainty.

IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The Company adopted IFRIC 23 on January 1, 2019, applying a retrospective approach. Based on an analysis of the Company’s historic tax filing positions as of January 1, 2019, the adoption of IFRIC 23 did not impact the Company’s financial results or disclosure

There are no new IFRS standards issued, but not yet effective, that will affect the financial statements of the Company.

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5. Exploration and evaluation assets

The investment in, and expenditures on, mineral interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the confirmation of legal ownership of the properties and the attainment of successful production from the properties or from the proceeds of their disposal. Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Antilla and Cotabambas are two of the Company's properties in an advanced exploration stage. The Company's seven other properties are Cochasayhuas, Checca, Promesa, Sancapampa, Humamantata, Anyo, and Morosayhuas and are all in various stages of exploration. All property interests are 100% held by the Company through wholly owned direct and indirect subsidiaries of the Company that were created to hold the various mineral property interests during the year ended December 31, 2018. The Company also held the El Rosal property in Minera Panoro Perú, S.A.C. until June 2019, as the Company determined that it would no longer explore such property. The Company chose not to make the required mineral concession payments on the El Rosal property (Note 12) and recorded an impairment of \$4.0 million during the year ended December 31, 2019.

On December 28, 2017, the Company entered into an agreement with a subsidiary of Hudbay Minerals Inc. ("Hudbay"), whereby Hudbay acquired the Company's concessions comprising the Kusiorcco Property. Pursuant to the terms of the agreement with Hudbay, the Company initially received US\$3.0 million (\$3.8 million) which was recorded as proceeds and the Company was scheduled to receive four milestone payments from Hudbay as follows: US\$500,000 (\$664,650) on the execution of agreements with local communities and surface titleholders necessary for Hudbay to access and carry out a drill program on the project (payment received in fiscal 2019); and three additional payments to be received as follows: US\$500,000 upon completion of Hudbay's first drill hole; US\$500,000 upon completion of Hudbay's fifth drill hole; and US\$500,000 upon completion of Hudbay's tenth drill hole on the project, none of which have yet been received by the Company. If all of the above milestones are not achieved within five years of the acquisition, Hudbay will either pay the Company the remaining milestone payments or return the Kusiorcco mining concessions to the Company, free and clear of all encumbrances. The Company also retains a 2.0% net smelter returns royalty ("NSR") from mineral production on the project. Hudbay has the option to buy back one-half of the 2.0% NSR (reducing the NSR to 1.0%) for US\$2.0 million within five years of the acquisition, and for US\$5.0 million thereafter.

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5. Exploration and evaluation assets (continued)

On October 2, 2018, the Company signed an earn-in agreement (the “Earn-in Agreement”) with Japan Oil, Gas and Metals National Corporation (“JOGMEC”) relating to the Humamantata property. Under the terms of the Earn-in Agreement, JOGMEC is committed to fund a minimum of US\$3.0 million in exploration expenditures and fees by the end of the third anniversary of the agreement, with a minimum spend of \$1.0 million per each annum, after which it will have earned the right to earn a 49% interest in the property.

JOGMEC has the option to earn an additional 11% interest in the Humamantata property (for a total of 60%) by spending an additional US\$5.0 million in the three years following its completion of the initial funding commitments) with a minimum spend of \$1.0 million per each annum. JOGMEC can withdraw from the agreement with no retained interest after having met a minimum spend of US\$1.0 million, of which \$547,957 was expended to the end of December 31, 2019, by the Company. Management of the property will be carried out jointly by both the Company and JOGMEC, with the Company acting as the operator of the property.

The Company performs an ongoing review of its properties, and based on the analysis of the properties, there were no indicators of impairment at December 31, 2019. Exploration and evaluation expenditures during 2019 are as follows:

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5. Exploration and evaluation assets (continued)

	Antilla	Cotabambas	Other	Total
Acquisition costs:				
Balance, December 31, 2019	\$ 7,319,722	\$ 4,925,035	\$ 1,136,413	\$13,381,170
Exploration expenditures incurred in 2019:				
Amortization (Note 6)	\$ -	\$ 606	\$ -	\$ 606
Assays and sampling	-	17,554	366	17,920
Camp and site costs	33,305	374,700	192,627	600,632
Community relations	3,242	308,091	47,329	358,662
Drilling	-	294,323	-	294,323
Environmental, health, safety	1,582	112,961	63,617	178,160
Geology	4,561	294,078	105,195	403,834
Geophysics	-	47,448	28,434	75,882
Legal	12,188	13,579	3,631	29,398
Recording and concession fees	267,026	352,193	517,835	1,137,054
Recovery of value-added taxes	-	(416,199)	-	(416,199)
Share-based expense	-	25,858	-	25,858
Technical reports	1,879	13,306	-	15,185
Travel	1,258	26,404	15,250	42,912
Incurred during the year	325,041	1,464,902	974,284	2,764,227
Write-off of El Rosal Project	-	-	(4,033,509)	(4,033,509)
Funds received on JOGMEC earn-in agreement	-	-	(547,957)	(547,957)
Capitalized exploration expenditures at December 31, 2018	9,849,848	44,767,626	9,484,860	64,102,334
Capitalized exploration expenditures at December 31, 2019	10,174,889	46,232,528	5,877,678	62,285,095
Total exploration and evaluation assets at December 31, 2019	\$17,494,611	\$51,157,563	\$7,014,091	\$75,666,265
2019 Salaries and benefits allocation included above:				
	Antilla	Cotabambas	Other	Total
Camp and site costs	\$ 30,400	\$ 126,255	\$ 63,846	\$ 220,501
Community relations	-	237,309	31,764	269,073
Engineering and technical	1,879	13,306	-	15,185
Environmental, health, safety	-	21,636	-	21,636
Geology and sampling	4,561	294,219	105,195	403,975
	\$ 36,840	\$ 692,725	\$ 200,805	\$ 930,370

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5. Exploration and evaluation assets (continued)

Exploration and evaluation expenditures during 2018 are as follows:

	Antilla	Cotabambas	Other	Total
Acquisition costs:				
Balance, December 31, 2018	\$ 7,319,722	\$ 4,925,035	\$ 1,136,413	\$13,381,170
Exploration expenditures incurred in 2018:				
Amortization	-	26,955	-	26,955
Assays and sampling	2,904	134,744	-	137,648
Camp and site costs	105,680	511,433	53,658	670,771
Community relations	128,853	373,007	315	502,175
Drilling	-	507,334	-	507,334
Engineering and studies	114,582	224	-	114,806
Environmental, health, safety	3,843	162,716	1,645	168,204
Geology	29,213	541,511	-	570,724
Geophysics	-	150,721	-	150,721
Legal	49,862	6,587	8,154	64,603
Metallurgy	160,307	-	-	160,307
Recording and concession fees	207,143	211,071	522,127	940,341
Recovery of value-added taxes	(1,007)	(57,772)	-	(58,779)
Share-based expense	-	154,669	-	154,669
Travel	4,081	48,807	3,165	56,053
Incurred during the year	805,461	2,772,007	589,064	4,166,532
Capitalized exploration expenditures at December 31, 2017	9,044,387	41,995,619	8,895,796	59,935,802
Capitalized exploration expenditures at December 31, 2018	9,849,848	44,767,626	9,484,860	64,102,334
Total exploration and evaluation assets at December 31, 2018	\$17,169,570	\$49,692,661	\$10,621,273	\$77,483,504
2018 Salaries and benefits allocation included above:				
	Antilla	Cotabambas	Other	Total
Camp and site costs	\$ 97,419	\$ 176,397	\$ 45,112	\$ 318,928
Community relations	17,099	224,433	-	241,532
Engineering and technical	1,605	224	-	1,829
Environmental, health, safety	59	26,357	-	26,416
Geology and sampling	29,213	541,511	-	570,724
	\$ 145,395	\$ 968,922	\$ 45,112	\$ 1,159,429

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6. Property and equipment

	Computer and office furnishings	Equipment	Vehicles	Leasehold improvements	Right of use assets	Total
Cost:						
Balance at January 1, 2019	\$ 155,100	\$ 120,765	\$ 112,071	\$ 94,704	\$ -	\$ 482,640
Effect of adopting IFRS 16	-	-	-	-	380,425	380,425
Additions during the year	655	-	-	-	-	655
Balance, December 31, 2019	155,755	120,765	112,071	94,704	380,425	863,720
Accumulated amortization:						
Balance at January 1, 2019	143,729	119,916	112,071	94,704	-	470,420
Effect of adopting IFRS 16	-	-	-	-	196,938	196,938
Amortization for the year	3,296	849	-	-	109,636	113,781
Balance, December 31, 2019	147,025	120,765	112,071	94,704	306,574	781,139
Net book value:						
December 31, 2019	\$ 8,730	\$ -	\$ -	\$ -	\$ 73,851	\$ 82,581

	Computer and office furnishings	Equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1, 2018	\$ 149,847	\$ 120,765	\$ 112,071	\$ 94,704	\$ 477,387
Additions during the year	5,253	-	-	-	5,253
Balance at December 31, 2018	155,100	120,765	112,071	94,704	482,640
Accumulated amortization:					
Balance at January 1, 2018	127,643	100,977	103,073	94,704	426,397
Amortization for the year	16,086	18,939	8,998	-	44,023
Balance at December 31, 2018	143,729	119,916	112,071	94,704	470,420
Net book value:					
December 31, 2018	\$ 11,371	\$ 849	\$ -	\$ -	\$ 12,220

Amortization of \$606 for the year ended December 31, 2019 (2018 - \$26,955) relates to exploration and evaluation expenditures and has been capitalized to the exploration and evaluation assets (Note 5).

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7. Right-of-use assets and lease liabilities

The Company has a lease agreement for the headquarter office space in Vancouver, BC and a lease agreement for the subsidiary office space in Lima, Perú. Upon transition to IFRS 16, the Company recognized \$183,487 of right of use (“ROU”) assets and \$212,617 of lease liabilities with the difference being recorded as an adjustment to opening deficit at January 1, 2019.

The lease liability of January 1, 2019, can be reconciled to the operating lease obligations as of December 31, 2018, as follows:

Operating lease obligations as of December 31, 2018	\$ 414,690
Lease with a lease term of 12 months or less and lower values	(33,585)
Less: Non-lease components	(83,377)
Discounting at incremental borrowing rate ⁽¹⁾	(85,111)
Lease liabilities due to initial application of IFRS 16 as at January 1, 2019	212,617
Repayment of lease liabilities	(117,511)
Interest accrued on lease liabilities	15,101
Interest payment on lease liabilities	(15,101)
Unrealized foreign exchange gain	1,686
Lease liabilities recognized as at December 31, 2019	\$ 96,792
Current portion of lease liabilities	\$ 78,827
Long-term portion of lease liabilities	17,965
	\$ 96,792

(1) The lease liabilities were discounted using an incremental rate as of January 1, 2019, of 9.57% per annum.

During the year ended December 31, 2019, the Company recognized occupancy expenses of \$39,561 (December 31, 2018 - \$29,314).

As of December 31, 2019, the remaining undiscounted lease payments, including non-lease components, are disclosed in Note 12 - Commitments.

8. Early Deposit Precious Metals Agreement

On March 21, 2016, the Company entered into the Wheaton PMPA in respect of the Cotabambas project located in Perú. The term of the Wheaton PMPA continues in effect for 20 years and automatically renews for successive ten-year periods until Wheaton Metals terminates the Wheaton PMPA. The principal terms of the Wheaton PMPA are such that Wheaton Metals will pay the Company upfront cash payments totaling US\$140.0 million (the “Deposit”) for 25% of the payable gold production and 100% of the payable silver production (decreasing to 16.67% of the payable gold production and 66.67% of the payable silver production), after a certain production volume has been delivered to Wheaton Metals from the Company’s Cotabambas Project in Perú.

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8. Early Deposit Precious Metals Agreement (continued)

In addition, Wheaton Metals will make production payments to the Company of the lesser of the market price and US\$450 per payable ounce of gold and US\$5.90 per payable ounce of silver delivered to Wheaton Metals, increasing annually by 1%, four years after commencement of commercial production, over the life of the Company's Cotabambas Project. Any excess of the market price and the fixed payments will be credited against the Deposit ("Early Deposit") until the Early Deposit is nil. If, by the expiry of the term of the Wheaton PMPA, the Company has not delivered enough production to reduce the Early Deposit to nil, the uncredited balance will be repaid to Wheaton Metals. The Wheaton PMPA provides for the Company to receive US\$14.0 million of the Early Deposit prior to the Company completing a feasibility study on the Cotabambas project.

Payments under the Early Deposit total US\$2.0 million in the first year and instalments of US\$750,000 semi-annually thereafter until the full US\$14.0 million has been advanced. The Early Deposit also included a provision to accelerate payment of an amount equal to the amount of funds raised in any offering of equity securities for the purpose of exploration of the Cotabambas project during the period January 27, 2016, to March 21, 2018, up to a maximum of US\$3.5 million for all such offerings. The Company received US\$2.0 million from Wheaton Metals pursuant to offerings.

Under the Early Deposit provisions the Company must meet certain minimum working capital requirements. The balance of US\$126.0 million is payable in instalments during construction of the Cotabambas Project, should Wheaton Metals elect to proceed with the Agreement. Wheaton Metals may terminate the Wheaton PMPA at any point up to 90 days following delivery of a feasibility study on the Cotabambas project upon giving the Company three months' notice, in which case all Early Deposit amounts advanced less US\$2.0 million will become repayable. Wheaton Metals can elect to be repaid in cash or shares, with the deferral of cash payments under certain conditions for up to two years. If Wheaton Metals elects to terminate the Wheaton PMPA and be repaid with cash, interest will accrue at prime plus 8% per annum if repayment has not been made within two years of notice of termination. Wheaton Metals may also terminate the Wheaton PMPA at different points during the term of the Wheaton PMPA if certain production delays occur, in which case the uncredited deposit will be repayable to Wheaton Metals.

Following a change of control, subject to certain conditions, the Company has a one-time option to repurchase 50% of the precious metals stream with a payout based on the greater of: (i) a minimum fixed return (ii) a return based on appreciation of precious metals prices over the term of the Wheaton PMPA and (iii) a return based on appreciation of the share price of the Company over the term of the Wheaton PMPA. At December 31, 2019, the Company had received a total of US\$8.5 million under the Early Deposit, including an accelerated payment of US\$2.0 million after the successful completion of a private placement in August 2016.

Subsequent to December 31, 2019, the Company received the tenth payment under the Early Deposit, bringing the total received to US\$9.25 million.

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9. Share capital

(a) Authorized:

Unlimited common shares without par value.

Issued and outstanding:

263,837,522 common shares (December 31, 2018 – 263,837,522 common shares).

(b) Stock options

Stock options to purchase common shares have been granted to directors, employees, contractors and consultants at exercise prices determined by reference to the market value on the date of the grant.

The number of shares available for options to be granted under the Company's rolling stock option plan is 10% of the number of shares outstanding (the "Plan"), as amended, at the Annual General Meeting held on June 20, 2019. Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

A summary of the Company's stock options as at December 31, 2019 and 2018, and for the years ended December 31, 2019 and 2018, are as follows:

	Number of Options	Weighted average exercise price
Balance, December 31, 2017	11,897,800	\$ 0.24
Stock options granted during the year	7,300,000	\$ 0.34
Balance, December 31, 2018	19,197,800	\$ 0.28
Stock options granted during the year	4,300,000	\$ 0.15
Stock options expired, unexercised during the year	(3,250,000)	\$ 0.35
Balance, December 31, 2019*	20,247,800	\$ 0.24

* All options at December 31, 2019, are outstanding and exercisable.

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9. Share capital (continued)

(b) Stock options (continued)

During the year ended December 31, 2019, the Company granted 4,300,000 (2018 – 7,300,000) stock options to directors, officers, senior management and employees at an exercise price of \$0.15 (2018 - \$0.34), which are exercisable for a period of five years, and vested immediately. The total fair value of the stock options granted in the year was \$234,080 (2018 - \$1,129,079), using the Black-Scholes method with the following assumptions - a volatility of 60% (2018 – 68%), an expected option life of 3.04 years (2018 – 2.92 years), a risk free interest rate of 1.43% (2018 – 1.90%), and an expected dividend yield of 0% (2018 – 0%). The total value recorded of \$234,080 (2018 - \$1,129,079) was recognized as share-based expense for the year, of which \$25,858 (2018 - \$154,669) was capitalized to exploration costs on the Cotabambas mineral property interest. The stock options granted during the year expire on August 16, 2024.

Year of expiry	Number of options	Weighted average exercise price
2021	8,047,800	\$ 0.20
2022	600,000	\$ 0.20
2023	7,300,000	\$ 0.34
2024	4,300,000	\$ 0.15
	20,247,800	\$ 0.24

The weighted average life of exercisable options outstanding as at December 31, 2019, is 2.9 years (December 31, 2018 – 3.0 years).

10. Income taxes

The Company's recognized net deferred tax assets and liabilities as at December 31, 2019, are as follows:

	2019	2018
Deferred tax assets		
Mineral properties	\$ 343,437	\$ 470,137
Capital losses	48,080	-
Non-capital losses	18,889	116,191
	\$ 410,406	\$ 586,328
Deferred tax liabilities		
Mineral properties	\$ (343,469)	\$ (479,678)
Intercompany loan	(66,937)	(106,650)
Total income tax expense (recovery)	(410,406)	(586,328)
Net deferred tax assets (liabilities)	\$ -	\$ -

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10. Income taxes (continued)

As at December 31, 2019, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets:

	2019	2018
Exploration and evaluation assets	\$ 8,541,138	\$ 10,634,357
Property and equipment	101,158	-
Tax losses carried forward	24,990,089	20,515,817
Other	201,961	221,095
Unrecognized deductible temporary differences	\$ 33,834,346	\$ 31,371,269

The Company has non-capital losses of approximately \$21.0 million (2018 - \$18.7 million) and \$4.0 million (2018 - \$1.5 million) to reduce future income tax in Canada and Perú, respectively. The losses in Canada expire between 2026 and 2039 and the losses in Perú expire between 2020 and 2023.

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 27.0% (2018 – 27.0%) as follows:

	2019	2018
Expected tax recovery	\$ (1,398,998)	\$ (1,226,592)
Permanent and other differences	478,315	421,082
Foreign exchange	588,572	(987,720)
Others	113,893	(72,465)
Change in tax rate	(289,274)	241,650
Deferred income tax assets not recognized	507,492	1,624,045
	\$ -	\$ -

11. Related party transactions

During the year ended December 31, 2019, the Company purchased \$Nil (2018 - \$14,926) in geological supplies from a private company controlled by a director of a subsidiary of the Company. The Company had no other transactions with directors and officers and/or companies controlled by directors or officers in common with the Company during the years ended December 31, 2019 and 2018. At December 31, 2019, included in accounts payable and accrued liabilities, there was \$30,581 payable to three officers and/or directors of the Company, \$29,000 for directors' fees and \$1,581 for expenses incurred on behalf of the Company.

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12. Commitments

The Company has the following commitments and payments due under the leases payable:

	2020	2021	2022	2023	2024	Total
Office lease (Vancouver)	\$ 68,518	\$34,429	\$ -	\$ -	\$ -	\$ 102,947
Office leases (Perú)	\$ 71,881	\$ -	\$ -	\$ -	\$ -	\$ 71,881
Warehouses	\$ 2,592	\$ -	\$ -	\$ -	\$ -	\$ 2,592
Accrued Vigencias	\$ 1,354,337	\$ -	\$ -	\$ -	\$ -	\$1,354,337
Accounts payable	\$ 99,188	\$ -	\$ -	\$ -	\$ -	\$ 99,188
Accrued liabilities	\$ 44,477	\$ -	\$ -	\$ -	\$ -	\$ 44,477

Vigencias (or recording fees) of US\$3 per hectare are not commitments, but rather the annual payments required to maintain mineral concessions in good standing with the Peruvian government. The actual payment made in 2019 for the 2018 year was \$967,194 (2018 - \$1,072,520 relating to the 2017 year). The ultimate amount to be paid is based on a formula relating to exploration costs incurred, offset against the basic fee and penalty. After the 6th year, an annual penalty must be paid per hectare, starting at US\$6 per hectare, until after 12 years, the additional fee increases to US\$20 per hectare. The penalties are reduced, based on exploration activity on the concessions, and the reduction is determined each year by the Peruvian government. The Company estimates the annual costs to be approximately \$1,354,337 for the 2019 year and is payable by September of fiscal 2020. This balance is higher than the payment made in fiscal 2019 for the 2018 year, due to increases in penalties which increase on a statutory basis from US\$6 per hectare to US\$20 per hectare the longer the claims are held with no commercial production. In fiscal 2019, the Company did not make the payments for the Vigencias on the El Rosal property, and as a result, the acquisition and exploration costs of the property were written off. Commencing in 2019, and in the following years, Vigencia payments will increase by an annual inflation adjustment to be determined by the government on an annual basis. The Vigencias are accrued monthly and are included in accounts payable and accrued liabilities.

The Company has an office lease in Lima, leases for warehouses in Cusco, and an office lease in Vancouver, Canada. The leases for the warehouses are renewed annually.

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13. Financial instruments and capital management

(a) Fair value of financial instruments

The fair values of the Company's cash and cash equivalents, short-term investments, accounts receivable and accounts payable and other liabilities approximate their carrying values because of the short-term nature of these instruments.

At December 31, 2018, the Company held 33,333 common shares in Fidelity Minerals Corp. ("Fidelity"), at a book value of \$10,000 and a fair value of \$1,667. In December 2019, Fidelity completed a five for one share consolidation, and the Company now holds 6,667 common shares with a fair value of \$300. These shares have been recognized at fair value in the consolidated statement of financial position with gains or losses on revaluation recognized in other comprehensive income (loss).

IFRS 13 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Marketable securities are determined based on a market approach reflecting the closing price of each particular security at the reporting date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security. As a result, these financial assets have been included in Level 1 of the fair value hierarchy. Marketable securities are reflected on the statement of financial position at fair value and are valued using Level 1 inputs.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, for substantially the full contract term. Liabilities under the Early Deposit Precious Metals Agreement are valued using Level 2 inputs.

Level 3: Inputs for the financial asset or liability are not based on observable market data. The Company has no financial assets or liabilities included in Level 3 of the fair value hierarchy.

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13. Financial instruments and capital management (continued)

(b) Financial risks

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and certain market risks including foreign currency and interest rate risk.

Credit risk

The Company manages its credit risk through its counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its bank accounts, short-term investments, and accounts and advances receivable. Bank accounts and short-term investments are primarily with Canadian Schedule 1 banks and Banco de Credito in Perú. The Company has accounts and advances receivable primarily related to IGV receivable from the Peruvian government. The total of cash and cash equivalents, short-term investments and accounts and advances receivable of \$751,525 (2018 - \$2,293,527) represent the maximum credit exposure. The Company has no history of credit losses associated with its financial assets.

Liquidity risk

The Company manages its liquidity risk by ensuring that there is sufficient liquidity in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash and cash equivalents are primarily invested in bank accounts, bankers' acceptances, and Guaranteed Investment Certificates ("GIC"), which are available on demand.

Contractual commitments that the Company is obligated to pay in future years are disclosed in Note 12. Accounts payable and accrued liabilities require payment within one year.

Market risk

The significant market risks to which the Company is exposed are foreign currency risk and interest rate risk.

Foreign currency risk

The Company maintains its financial statements in Canadian dollars. The Company is exposed to foreign currency fluctuations to the extent mineral interests, exploration expenditures and operating expenses incurred by the Company are not denominated in Canadian dollars.

The Company does not use derivatives or other instruments to manage the foreign currency risk. The Company's operations in Perú make it subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company's operating results and cash flows are affected to varying degrees by changes in the Canadian dollar exchange rate vis-a-vis the Peruvian Nuevo Sol ("PEN" or "S/.") and the US Dollar ("US\$"). The Company purchases foreign currencies as the need arises in order to fund its exploration activities. Corporate expenditures are primarily incurred in Canadian and US dollars.

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13. Financial instruments and capital management (continued)

Foreign currency risk (continued)

As at December 31, 2019, the Company's significant exposures to foreign currency risk, based on the statement of financial position carrying values, were to the Peruvian Nuevo Sol and the US Dollar, as follows:

	December 31, 2019		December 31, 2018	
	PEN	US\$	PEN	US\$
Cash	S/. 48,556	US\$311,059	S/. 20,648	US\$1,581,737
Accounts and advances receivable	644,345	9,653	175,192	9,653
Accounts payable and accrued liabilities	(3,079,174)	(138,624)	(156,130)	(897,384)
Precious Metals Purchase Agreement	-	(8,500,000)	-	(7,000,000)
Leases	-	(32,079)	-	-
Net exposure	S/.(2,386,273)	US\$(8,349,991)	S/. (39,710)	US\$(6,305,994)
Canadian dollars	\$(935,180)	\$(10,844,968)	\$(16,051)	\$(8,602,637)

The following sensitivity analysis assumes all other variables remain constant and are based on the above net exposures. A 10% appreciation or depreciation of the Peruvian Nuevo Sol vis-a-vis the Canadian Dollar would result in a \$93,518 (2018 - \$1,605) increase or decrease, respectively, in net loss and shareholders' equity. A 10% appreciation or depreciation of the US Dollar vis-a-vis the Canadian Dollar would result in a \$1,084,497 (2018 - \$860,264) increase or decrease, respectively, in net loss and shareholders' equity.

Interest rate risk

The Company's cash and cash equivalents and short-term investments earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to changes in short-term rates; however, based on the cash and cash equivalent balance at December 31, 2019, a 1% change in interest rates would not have a significant impact on the Company's financial results.

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13. Financial instruments and capital management (continued)

(c) Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to pursue the exploration and development of its mineral property interests, while maintaining a flexible capital structure. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended December 31, 2019.

14. Segmented disclosures

The Company has one operating segment, mineral exploration. All of the Company's exploration and evaluation assets are located in Perú and are disclosed in Note 5. Property and equipment are distributed geographically as follows.

	2019	2018
Perú	\$ 40,618	\$ 7,462
Canada	41,963	4,758
	\$ 82,581	\$ 12,220

15. Key management personnel compensation

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes the Company's directors and members of the senior management group, and consisted of eleven individuals in 2019 and 2018.

Details of key management personnel compensation is as follows:

	2019	2018
Salary, fees and benefits	\$ 1,233,498	\$ 1,185,952
Share-based compensation	212,305	989,881
	\$ 1,445,803	\$ 2,175,833

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16. Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2019, was based on the loss attributable to common shareholders of \$5,181,476 (2018 - \$4,542,933) and the weighted average number of common shares outstanding 263,837,522 (2018 – 262,972,199) respectively. For the years ended December 31, 2019 and 2018, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options (see Note 9(b)) on loss per share would be anti-dilutive. Anti-dilutive instruments have not been included in the determination of fully-diluted loss per share.

	2019	2018
Issued common shares, beginning of year	263,837,522	260,163,382
Effect of warrants and options issued	-	2,808,817
Weighted average number of common shares, end of year	263,837,522	262,972,199

17. Supplementary cash flow information

	2019	2018
Non-cash activities:		
Amortization capitalized to exploration and evaluation assets	\$ 606	\$ 26,955
Share-based expense capitalized to exploration and evaluation assets	25,858	154,669
Change in accounts payable and accrued liabilities associated with exploration and evaluation expenditures	85,695	(718,347)