

Lupaka Gold Corp.

Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2017 and 2016
(Presented in Canadian Dollars)

(Unaudited)

NOTICE TO READER

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

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

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

Lupaka Gold Corp.

Consolidated Condensed Interim Statements of Financial Position (Unaudited)

As at September 30, 2017 and December 31, 2016

(Presented in Thousands of Canadian Dollars, Except Share Data)

	September 30, 2017 \$	December 31, 2016 \$
Assets		
Current assets		
Cash and cash equivalents	69	112
Value added tax receivables	20	18
Prepaid expenses and deposits	46	38
	135	168
Non-current assets		
Equipment (Note 4)	168	206
Mineral properties (Note 5)	11,883	28,673
Mineral properties – held for sale (Note 5)	5,720	–
	17,603	28,673
Total assets	17,906	29,048
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,239	1,476
Due to related parties (Note 6)	684	667
Current portion of loans (Note 8)	1,091	–
	3,014	2,143
Long-term liabilities		
Deferred revenues (Note 7)	2,022	–
Provisions for reclamation	280	285
Loans (Note 8)	194	659
Total liabilities	5,510	3,087
Equity		
Common shares (Note 9 (a))	58,697	58,419
Warrants (Note 9 (b))	1,277	1,366
Contributed surplus	4,743	4,012
Deficit	(53,146)	(39,951)
Accumulated other comprehensive income	825	2,115
Total equity	12,396	25,961
Total liabilities and equity	17,906	29,048

Nature of operations and going concern (Note 1)

Commitment and contingency (Note 11)

Subsequent events (Notes 5 and 7)

Approved and authorized for issue by the Board on November 27, 2017.

signed "Will Ansley"

Director

signed "Stephen Silbernagel"

Director

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited)

For the three and nine months ended September 30, 2017 and 2016

(Presented in Thousands of Canadian Dollars, Except Share Data)

	Three months ended		Nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating expenses				
Exploration and development				
Camp, community relations and related costs	340	213	821	443
Project administration	170	258	421	732
	510	471	1,242	1,175
General and administration				
Salaries and benefits	83	42	240	151
Shareholder and investor relations	20	3	31	20
Professional and regulatory fees	19	18	58	114
Office and general	25	24	78	77
Travel	9	6	11	11
	156	93	418	373
Operating loss	666	564	1,660	1,548
Impairment of mineral property (Note 5)	11,037	–	11,037	–
Accretion expense	145	33	251	33
Financing expenses (Note 7)	168	–	168	–
Interest expense	49	22	111	22
Foreign exchange gain	(19)	10	(32)	(7)
Loss for the period	12,046	629	13,195	1,596
Weighted average number of shares outstanding, basic and diluted	118,274,680	113,415,820	113,650,083	111,098,010
Loss per share, basic and diluted	\$0.10	\$0.01	\$0.12	\$0.01

	Three months ended		Nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Consolidated statements of comprehensive loss				
Loss for the period	12,046	629	13,195	1,596
Currency translation adjustment on foreign operations	1,257	562	1,290	1,253
Comprehensive loss (gain)	13,303	1,191	14,485	2,849

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Cash Flows (Unaudited) For the three and nine months ended September 30, 2017 and 2016

(Presented in Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2017 \$	2016 \$	2017 \$	2016 \$
Cash flows from (used in) operating activities				
Loss for the period	(12,046)	(629)	(13,195)	(1,596)
Adjustment for items not affecting cash:				
Write-down of mineral property	11,037	–	11,037	–
Depreciation (Note 4)	8	11	29	40
Accretion	145	33	251	33
Share-based compensation (Note 6)	65	8	191	61
Provisions for reclamation	(17)	–	(5)	–
Gain on sale of equipment	–	(1)	–	(18)
	(808)	(578)	(1,692)	(1,480)
Changes in non-cash working capital				
Trade and other receivables	1	3	(3)	(3)
Prepaid expenses and deposits	6	7	(7)	6
Trade payables and accrued liabilities	5	161	(192)	26
Due to related parties (Notes 6 and 8)	28	(2)	17	(40)
Net cash used in operating activities	(768)	(409)	(1,877)	(1,491)
Cash flows from (used in) investing activities				
Mineral property costs	(1,250)	–	(1,250)	–
Purchase of equipment	–	–	–	(3)
Proceeds on sale of equipment	–	–	–	20
Net cash from (used in) investing activities	(1,250)	–	(1,250)	17
Cash flows from financing activities				
Deferred revenues	2,028	–	2,028	–
Private placement proceeds, net (Note 9)	–	–	298	400
Proceeds from loans, net (Note 8)	–	–	706	725
Exercises of warrants	–	146	50	296
Exercises of options	–	16	–	16
Net cash from financing activities	2,028	162	3,082	1,437
Net increase (decrease) in cash and cash equivalents	10	(247)	(45)	(37)
Cash and cash equivalents - beginning of period	52	293	112	52
Effect of foreign exchange rate changes on cash and cash equivalents	7	27	2	58
Cash and cash equivalents - end of period	69	73	69	73

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited) For the three and nine months ended September 30, 2017 and 2016

(Presented in Thousands of Canadian Dollars, Except Share Data)

	Nine months ended September 30			
	2017		2016	
	Number	\$	Number	\$
Common shares (Note 9 (a))				
Balance – beginning of period	115,474,680	58,419	103,563,251	57,791
Issued pursuant to a private placement	2,000,000	168	8,390,000	99
Shares issued for debt	300,000	45	–	–
Share purchase warrants exercised	500,000	65	2,446,429	350
Stock options exercised	–	–	115,000	26
Balance – end of period	118,274,680	58,697	114,514,680	58,266
Share purchase warrants (Note 9 (b))				
Balance – beginning of period		1,366		815
Issued pursuant to a private placement		129		301
Issued pursuant to loans (Note 7)		332		325
Share purchase warrants exercised		(14)		(54)
Share-based compensation (Agent's warrants)		5		–
Balance – end of period		1,818		1,387
Contributed surplus (Note 9 (c))				
Balance – beginning of period		4,012		3,869
Share-based compensation		190		61
Stock options exercised		–		(11)
Balance – end of period		4,202		3,919
Deficit				
Balance – beginning of period		(39,951)		(37,730)
Loss for the period		(13,195)		(1,596)
Balance – end of period		(53,146)		(39,326)
Accumulated other comprehensive income				
Balance – beginning of period		2,115		2,490
Currency translation adjustment on foreign operations		(1,290)		(1,253)
Balance – end of period		825		1,237
Total equity		12,396		25,483

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

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

(Presented in Canadian Dollars)

1 Nature of operations and going concern

Lupaka Gold Corp. (“Lupaka”) was incorporated in Canada on November 3, 2000 under the legislation of the Province of British Columbia, and is in the business of acquiring and exploring mineral resource properties. Lupaka was dormant prior to January 1, 2010.

All of Lupaka’s resource projects are located in Peru and are held by Lupaka’s 100%-owned subsidiaries.

Lupaka’s registered office is located at 700 – 595 Howe Street, Vancouver, BC, V6C 2T5 and its records office is located at 220 – 800 West Pender Street, Vancouver, BC, V6C 2V6. Lupaka’s common shares trade in Canada on the TSX Venture Exchange (“TSX.V”) and in Germany on the Frankfurt Exchange under the symbol LQP.

Collectively, Lupaka and its subsidiaries are referred to hereafter as “the Company”.

These condensed consolidated interim financial statements (“financial statements”) are prepared using International Financial Reporting Standards (“IFRS”) that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

If the going concern assumption was not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used, and such adjustments would be material. Several adverse conditions cast significant doubt upon the validity of the going concern assumption. As at September 30, 2017, the Company has a working capital deficit of \$2,879,000, an accumulated deficit of \$53,146,000, and negative cash flow from operating activities of \$1,877,000.

The Company’s ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or obtain alternative financing, which it has been successful in doing so in the past. However, there is no certainty that sufficient financing can be obtained in the future – see Note 5.

As the outcome of these matters cannot be predicted at this time, if the Company is unable to obtain additional financing, management may be required to further curtail certain expenses.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) For the three and nine months ended September 30, 2017 and 2016

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2 Basis of preparation

The principal accounting policies applied in the preparation of these unaudited condensed consolidated interim financial statements (“interim financial statements”) are set out below. These policies have been consistently followed, unless otherwise stated.

2.1 Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”). As such, these interim financial statements do not include all of the information required by IFRS for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016.

These interim statements also follow the same accounting policies and methods of computation as compared to the most recent consolidated financial statements for the year ended December 31, 2016, in addition to the new accounting policies applicable for the nine months ended September 30, 2017.

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors on November 27, 2017.

2.2 Significant accounting judgments and key sources of estimate uncertainty

In preparing these condensed consolidated interim financial statements, the Company is required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates and judgments used in developing and applying the accounting policies are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Significant accounting judgments

The following are the significant judgments, apart from those involving estimates, that management made in the process of applying the Company’s key accounting policies and that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements.

Going concern assumption – presentation of the condensed consolidated interim financial statements which assumes that the Company will continue in operation for the foreseeable future, obtain additional financing as required, and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

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Determination of functional currency – the functional currency is the currency of the primary economic environment in which an entity operates. This involves evaluating factors such as the dominant currency that influences local competition and regulation, the currency that is used to pay local operating costs, and the currency used to generate financing cash inflows. The evaluation of these factors is reviewed on an ongoing basis.

Determination of cash-generating units – for the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or outflows (cash-generating units). In management’s judgment the Company has two cash-generating units based on the evaluation of the smallest discrete group of assets that generate cash flows.

Impairment of mineral properties – the carrying value of the Company’s mineral properties is reviewed by management at each reporting period, or whenever events or circumstances indicate that the carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. During the nine months ended September 30, 2017, the Company recognized a non-cash impairment loss on the Crucero Gold Project in the amount of \$11,037,000 (Nil\$ - period ended September 30, 2016). See Note 5.

Recognition of deferred income tax assets - the decision to recognise a deferred tax asset is based on management’s judgment of whether it is considered probable that future taxable profits will be available against which unused tax losses, tax credits or deductible temporary differences can be utilized.

No loss provision regarding possible additional tax assessments – the decision that no loss provision be made regarding the challenge to the deductibility of certain property write-offs and foreign exchange losses by SUNAT, the Peruvian tax authority, is based on the Company’s opinion that the deductions are legitimate, can be successfully defended in the appeals process available under Peruvian law and are limited. See Note 11.

Key sources of estimate uncertainty

The following is information about the significant areas of estimation uncertainty in applying accounting policies that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Reclamation obligations – provision is made for the anticipated costs of future reclamation and rehabilitation of mining areas which have been altered due to exploration activities and/or from which natural resources have been extracted to the extent that a legal or constructive obligation exists. These provisions include future cost estimates associated with reclamation, the calculation of which requires assumptions such as application of environmental legislation, available technologies and engineering cost estimates. A change in any of the assumptions used may have a material impact on the carrying value of reclamation provisions.

Deferred revenue - Significant judgments are required in determining the appropriate accounting treatment for the Prepaid Forward Gold Purchase Agreement (“PPF Agreement”) with PLI Huaura Holdings LP (“PLI”) entered into during 2017 (See Note 7). Management has determined that the net deposits received from PLI, less any other metals option value (the “Other Metals Option”), for the future delivery of gold ounces from production at the Invicta Project at contractual prices meet the criteria for deferred revenue. As at September 30, 2017, only the first of three Tranches were received,

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and the estimated US\$1,200,000 fair value of the Other Metals Option is currently included in deferred revenue.

Recognition of deferred revenues – provision is made regarding the PPF Agreement where the accounting recognition of the prepayment amounts, less any covered metals option value, are recorded as deferred revenue, to be amortized over the expected gold ounces to be delivered under the PPF Agreement. These provisions include the use of future production forecasts as well as estimations of the volatility of the applicable commodity prices, the market prices, and risk-free rate.

2.3 Basis of consolidation

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into line with those used by the Company. Inter-company transactions, balances, loss, comprehensive loss and expenses are eliminated on consolidation, where appropriate.

The condensed consolidated interim financial statements include the accounts of Lupaka and its subsidiaries, all of which are 100% owned:

- Andean American Gold Corp. (“AAG”), a Canadian company
- Lupaka Gold Peru S.A.C. (“LGP”), a Peruvian company
- Invicta Mining Corp S.A.C. (“IMC”), a Peruvian company
- Andean Exploraciones S.A.C. (“AES”), a Peruvian company (inactive)
- Greenhydro S.A.C. (“Greenhydro”), a Peruvian company (inactive)

3 Changes in accounting policy

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning January 1, 2015. Pronouncements that are not applicable to the Company have been excluded from this note. The following pronouncement has been issued but is not yet effective:

IFRS 9 - Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments (“IFRS 9”) to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers - In April 2016, the IASB issued IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers, and SIC 31 - Revenue - Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is currently mandatory for annual periods beginning on or after

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January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

4 Equipment

<i>In thousands of dollars</i>	Vehicles and field equipment	Office equip and furniture	Total
Cost			
Balance as at December 31, 2015	607	105	712
Additions	–	3	3
Disposal of equipment	(34)	–	(34)
Foreign exchange	(9)	(2)	(11)
Balance as at December 31, 2016	564	106	670
Foreign exchange	(22)	(11)	(33)
Balance as at September 30, 2017	542	95	637
Accumulated depreciation			
Balance as at December 31, 2015	366	84	450
Depreciation	41	11	52
Disposal of equipment	(31)	–	(31)
Foreign exchange	(5)	(2)	(7)
Balance as at December 31, 2016	371	93	464
Depreciation	24	5	29
Foreign exchange	(16)	(8)	(24)
Balance as at September 30, 2017	379	90	469
Carrying amounts			
Balance as at December 31, 2016	193	13	206
Balance as at September 30, 2017	163	5	168

During the nine months ended September 30, 2017, \$26,000 (2016 – \$36,000) of depreciation was included in project administration and \$3,000 (2016 – \$4,000) of depreciation was included in office and general.

5 Mineral properties

The Company's mineral properties comprise the Invicta Gold Project located in northwest Peru, the Crucero Gold Project located in southeast Peru, and an option to earn an ownership position of up to 65% of the Josnitoro Gold Project located in southern Peru.

Invicta Gold-Copper Polymetallic Project (“Invicta”)

In connection with the Company's October 2012 acquisition of AAG, the Company acquired Invicta, located approximately 120 kilometres by road north of the capital city of Lima, in the Lima Region of central Peru.

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(Presented in Canadian Dollars)

Invicta contains a gold-copper polymetallic underground deposit located within the group of 5 Victoria concessions acquired from Minera Barrick Misquichilca (“Barrick”) as well as another concession (Invicta II) obtained by IMC through an acquisition and staking program undertaken prior to the Company’s AAG acquisition.

The Invicta resource was originally acquired by AAG by way of an October 2005 option agreement with Barrick (the “Option Agreement”), a wholly-owned subsidiary of Barrick Gold Corporation, which was exercised in 2007. In June 2014, the Company was advised by Barrick that their advance royalty and production royalty agreements were assigned and sold to Franco-Nevada Corporation (“FN”), a royalty and stream company.

The Option Agreement required the Company to pay Barrick US\$200,000 for the mining rights, plus a 1% Net Smelter Royalty (“NSR”) capped at US\$800,000. The Option Agreement also called for advance annual royalty payments of US\$100,000, commencing on the date of exercising the option and every anniversary thereafter as well as a requirement to pay FN, upon the commencement of commercial production, US\$50,000 on a quarterly basis (capped at a total of US\$800,000).

From the proceeds of Tranche 1 of the PPF Agreement (see Note 7), in August 2017, the Company paid FN a total of US\$950,000 as full and final settlement of any outstanding and future royalty obligations. This payment was recorded as a component of the cost of mineral properties.

The carrying value for Invicta as at September 30, 2017 is \$11,883,000 (\$11,132,000 – December 31, 2016). The increase from December 31, 2016 reflects expenditures capitalized during the period of \$1,250,000 offset by a decrease in the carrying value of \$499,000 for the period due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2016 to September 30, 2017.

Crucero Gold Project (“Crucero”)

Crucero is comprised of 5 100%-owned mining concessions (which are not subject to any royalty interest) and 3 mining concessions held under a 30-year assignment which expires in September 2038 (subject to a maximum of a 5% net smelter return royalty on all gold and other minerals produced from the assigned concessions, dependent on the price of gold). These 8 concessions are held by LGP and make up the Crucero Gold Project.

On November 20, 2017, the Company closed (the “Closing”) a definitive sales and purchase agreement (the “SPA”) to sell all of its interests in Crucero to GoldMining Inc. (“GoldMining”). Pursuant to the SPA, GoldMining acquired all of the shares of a wholly owned subsidiary of the Company, which held a 100% interest in Crucero for \$750,000 in cash and 3,500,000 common shares of GoldMining, for total consideration having fair market value of \$5,720,000 as of the Closing. The GoldMining shares issued under the transaction are subject to certain volume resale restrictions pursuant to the terms of the SPA. An advisory fee will be paid by the Company.

In recognition of the value of the Crucero sale proceeds received by the Company, an impairment provision of \$11,037,000 was recorded as at September 30, 2017, with the Crucero mineral property classified as being “held for sale”.

Consequently, the carrying value for Crucero as at September 30, 2017 is \$5,720,000 (\$17,541,000 – December 31, 2016), as a result of the impairment provision and a decrease of \$784,000 due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2016 to September 30, 2017.

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Josnitoro Gold Project (“Josnitoro”)

Effective March 31, 2014, the Company entered into a definitive option agreement with Hochschild Mining plc (“Hochschild”) to earn a 65% interest on Josnitoro (the “Hochschild Option”) in Southern Peru. Josnitoro is an exploration stage gold and copper project in the Department of Apurimac which is comprised of 19 concessions.

Pursuant to the Hochschild Option, the Company is the Josnitoro project operator and must pay 100% of the cost of the required earn-in activities. In order to exercise the Hochschild Option, the Company must maintain the related concessions in good-standing, obtain the required permits and licenses, including community agreements, and invest at least US\$500,000 to obtain the aforementioned social and legal permits required to enable the Company to start exploration by March 31, 2018.

Once the aforementioned permits and licenses have been obtained, the Company shall have an additional 3 years to complete at least 10,000 metres of drilling, of which 3,000 metres will have to be fulfilled in the event that the Company opts out from the foregoing agreement without having exercised the Hochschild Option.

In the event that the Company does not obtain the aforementioned permits and licenses, the minimum metres to be drilled will not be required by Hochschild. Once the 10,000 metres of drilling have been completed, the Company shall have 1 year to deliver a preliminary economic assessment (“PEA”) to Hochschild. In the event that the Company is not able to receive community permission to commence drilling, the Company can abandon the Hochschild Option without penalty.

The carrying value for Josnitoro, for which no consideration has been paid, as at September 30, 2017 and December 31, 2016 was \$Nil.

6 Related party transactions

Details of transactions between the Company and other related parties are disclosed below:

a) Related party expenditures

Except for accrued interest owing or paid to related parties for Bridge Loans 1, 2 and 3, the Company otherwise had no related party transactions during the three and nine months ended September 30, 2017.

b) Key management compensation

Key management includes directors and executive officers of the Company. The compensation paid or payable to key management for employee services is shown below:

<i>In thousands of dollars</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries and benefits	64	66	146	123
Share-based compensation	52	5	140	43
Total key management compensation	116	71	286	166

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c) Due to related parties

Amounts due to related parties are unsecured and non-interest bearing and measured at the amount of consideration established and agreed to by the related parties.

As at September 30, 2017:

- i) \$12,000 was payable to an officer, director and a company controlled by a related party for unpaid services rendered, and
- ii) \$24,900 was payable to an officer, a spouse of an officer, two directors of the Company, a spouse of a director of the Company and two companies controlled by related parties for interest accrued and payable relating to Bridge Loans 1, 2 and 3.

7 Deferred revenue

In August 2017, the Company announced that it had executed a second amendment of the definitive PPF Agreement. The proceeds from the PPF Agreement will be used to fund the completion of development and initiate production at the Company's Invicta Gold Project.

The gross proceeds to be received will be US\$7 Million (originally US\$6.1 Million), payable in three tranches of US\$2.5 Million ("Tranche 1", received in August 2017), US\$2.0 Million ("Tranche 2", received in November 2017) and US\$2,500,000 ("Tranche 3", not yet received).

Concurrent with the receipt of Tranche 1, one-time upfront fees of US\$900,000 were paid to PLI ("the PLI Fees"), and netted from Tranche 1 as required under the PPF Agreement.

Additionally, pursuant to finder's fee and advisory agreements entered into with Red Cloud Capital Markets and KLR Capital (the "Agents"), the Company incurred the following financing fees, which were expensed during the three and nine months ended September 30, 2017:

1. Cash consideration for US\$146,000 ("Agents' Fees"), equivalent to 8% of the funds received in Tranche 1; and
2. Agents' Warrants equivalent to 1% of the funds received in Tranche 1, with an exercise price of \$0.20, and a two year term expiring on August 4, 2019 (See Note 9(b)).

The key condition precedent remaining to receive Tranche 3 is the requirement for the Company to raise US\$2 Million in additional non-debt capital.

As in the original PPF Agreement, each Tranche will have a grace period of 15 months after which the Company will deliver to PLI a total of 22,680 (originally 19,530) ounces of gold over the subsequent 45 months. For the repayment ounces, the Company will receive an amount per ounce of gold equal to the market price at the time, less a fixed discount. After the Tranches have been repaid, the Company will have no further obligations under the PPF Agreement. During the term of the PPF Agreement, PLI will also share in the upside on any increase in metal prices above the base spot price established in the PPF Agreement.

The Company has the right to buy out and terminate the PPF Agreement at any time and the Company's obligations under this agreement are secured by a first charge over all of the Company's assets.

The Deferred Revenue balance sheet amount of \$2,022,000 results from the USD to CAD conversion of the net amount of US\$1.6 Million received for Tranche 1, with the USD to CAD conversion of the

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related Agents' Fees and a Black Scholes calculation of the Agents' Warrants making up the \$168,000 of financing expenses in the statement of loss.

8 Loans

Bridge Loan 1 ("BL1")

On June 30, 2016, the Company completed a bridge loan financing for gross proceeds of \$750,000 with a group of third-party individuals and Insiders of the Company. The Company paid \$8,100 cash in finders' fees in connection with third-party investors and \$16,300 in other costs.

BL1 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually, with the first interest payment due on December 31, 2016 and each 6 months thereafter. The BL1 and accrued and unpaid interest is payable in full on or before the date that is two years after the Closing Date. Pursuant to the closing of BL1, the Company also issued share purchase warrants ("BL1 Warrants") as additional consideration for the loan – see Note 9.

In January 2017, the Company entered into Shares For Debt settlement agreements covering the BL1 interest payable as at December 31, 2016 with 6 creditors of the Company as well as the spouse of the Company's CEO, the personal holding company of the Company's CFO and a director of the Company, the latter three parties each being considered a related party, collectively, the "Creditors"), whereby the Company issued Common Shares at a price of \$0.15 per share. Pursuant to the Shares For Debt Agreements, \$45,000 of debt was settled and a total of 300,000 Common Shares was issued. The Common Shares issued in connection with the Shares for Debt transaction were subject to a statutory hold period of four months plus one day.

The recorded value of the BL1 balance as at September 30, 2017 has been calculated as follows:

<i>In thousands of dollars</i>	Liability \$	Equity \$
Balance, January 1, 2016	–	–
BL1 proceeds	750	–
Fair value of BL1 Warrants issued	(336)	336
BL1 issue costs allocated	(13)	(11)
Accretion	68	–
Balance, December 31, 2016	469	325
Accretion	124	–
Balance, September 30, 2017	593	325

Effective November 20, 2017, the BL1 principal and accrued interest was paid out to the noteholders.

Bridge Loan 2 ("BL2")

Effective January 12, 2017 ("Closing Date"), the Company completed a bridge loan financing for gross proceeds of \$300,000 with a group of third-party individuals and Insiders of the Company. The Company paid \$Nil cash in finders' fees in connection with third-party investors, with the proceeds being used for general working capital purposes.

BL2 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually, with the first interest payment due on June 30, 2017 and each 6 months thereafter. The BL2 principal and accrued and unpaid interest is payable in full on or before the date

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that is two years after the Closing Date, and pursuant to the closing of BL2, the Company issued share purchase warrants (“BL2 Warrants”) – see Note 9. The recorded value of the BL2 balance as at September 30, 2017 has been calculated as follows:

<i>In thousands of dollars</i>	Liability \$	Equity \$
Balance, January 1, 2017	–	–
BL2 proceeds	300	–
Fair value of BL2 Warrants issued	(147)	147
BL2 issue costs allocated	(1)	(1)
Accretion	42	–
Balance, September 30, 2017	194	146

Bridge Loan 3 (“BL3”)

Effective June 30, 2017, the Company completed a bridge loan financing for gross proceeds of \$600,000 with a group of third-party individuals and Insiders of the Company. The Company paid \$Nil cash in finders’ fees in connection with third-party investors, with the proceeds being used for general working capital purposes.

BL3 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually. The BL3 principal and accrued and unpaid interest is payable in full on or before three months after the Company receives any additional and/or new financing of at least \$4.0 million or the date that is six months after the effective date, whichever is the earlier. Pursuant to the closing of BL3, the Company issued share purchase warrants (“BL3 Warrants”) – see Note 9.

The recorded value of the BL3 balance as at September 30, 2017 has been calculated as follows:

<i>In thousands of dollars</i>	Liability \$	Equity \$
Balance, January 1, 2017	–	–
BL3 proceeds	600	–
Fair value of BL3 Warrants issued	(185)	185
BL3 issue costs allocated	(2)	(1)
Accretion	85	–
Balance, September 30, 2017	498	184

9 Equity

a) Common shares

Authorized: unlimited with no par value.

On May 24, 2017, the Company completed a non-brokered private placement unit offering with a group of Insiders of the Company (78%) and third-party individuals (22%) to raise gross proceeds of up to \$300,000. The Company issued 2,000,000 units (the “May 2017 Unit”) priced at \$0.15 per unit. Each May 2017 Unit consists of one common share and one transferable common share purchase warrant (each, a “May 2017 Warrant”). Each May 2017 Warrant entitles the holder to purchase one additional common share, exercisable at \$0.23 for a period of thirty-six months from closing.

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During the year ended December 31, 2016, 3,146,429 common shares were issued for proceeds of \$390,500 from the exercise of 1,517,142 share purchase warrants at \$0.15 per share and 1,629,287 warrants at \$0.10 per share. Of the warrants exercised, 1,919,761 were exercised by certain directors and officers of the Company for proceeds of \$226,500.

On February 19, 2016, the Company closed a non-brokered private placement and issued 8,390,000 units priced at \$0.05 per unit (the "Feb 2016 Unit"), for gross proceeds of \$419,500. Each Feb 2016 Unit consists of one common share and one transferable common share purchase warrant (the "Feb 2016 Warrant"). Each Feb 2016 Warrant entitles the holder to purchase one additional common share, exercisable at \$0.10 for a period of thirty-six months from closing. No Insiders of the Company participated in the Feb 2016 Placement and finders' fees to arm's-length parties consisted of \$16,110 in cash. Other share issue costs totalled approximately \$3,500.

b) Warrants

The Company has the following warrants outstanding as at September 30, 2017:

Year of Expiry	Range of exercise prices \$	Outstanding and Exercisable		
		Number of options outstanding	Weighted average exercise price \$	Weighted average remaining contractual life (years)
2018	0.10 – 0.20	15,610,855	0.16	0.9
2019	0.10 – 0.20	9,290,844	0.12	1.4
2020	0.23	2,000,000	0.23	2.6
	0.10 – 0.23	26,901,699	0.15	1.2

Following is a continuity schedule for the Company's warrants, for the nine months ended September 30, 2017:

	Weighted average exercise price \$	Number of share purchase warrants
Outstanding – beginning of period	0.19	28,173,355
May 2017 Warrants issued	0.23	2,000,000
BL2 Warrants issued	0.20	1,500,000
BL3 Warrants issued	0.15	4,000,000
Agent's Warrants issued	0.20	100,844
Warrants exercised	0.10	(500,000)
Expired	0.30	(8,372,500)
	0.15	26,901,699

A total of 15,550,855 warrants issued prior to March 2016, having an average exercise price of \$0.13, are subject to an acceleration clause such that in the event that the closing price of Lupaka Gold's common shares is greater than \$0.30 for a period of 20 consecutive trading days, Lupaka Gold may accelerate the expiry date of these warrants by giving notice to the holders thereof

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through the issuance of a press release. In such case, these warrants will expire on the 30th day after the date on which such notice is given.

BL1 Warrants

Pursuant to the closing of BL1 in June 2016, the Company issued to the lenders an aggregate of 3,750,000 non-transferrable warrants (the “BL1 Warrants”). Each BL1 Warrant, which expires June 30, 2018, entitles the holder to purchase 1 common share of the Company at a price of C\$0.20 per share.

BL2 Warrants

Pursuant to the closing of BL2 in January 2017, the Company issued to the lenders an aggregate of 1,500,000 non-transferrable warrants (the “BL2 Warrants”), such number being equal to the amount of the Loan divided by \$0.20. Each BL2 Warrant, which expires January 12, 2019, entitles the holder to purchase one common share of the Company at a price of C\$0.20 per share.

The weighted average fair value of the BL2 Warrants was estimated to be \$0.10 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price (\$)	0.20
Risk free interest rate (%)	0.77
Expected life (years)	1.5
Expected volatility (%)	145.4

May 2107 Warrants

Pursuant to the closing of the May 2017 Unit, the Company issued 2,000,000 May 2017 Warrants. Each May 2017 Warrant entitles the holder to purchase one additional common share, exercisable at \$0.23 for a period of thirty-six months from closing.

The weighted average fair value of the May 2017 Warrants was estimated to be \$0.06 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price (\$)	0.23
Risk free interest rate (%)	0.72
Expected life (years)	1.5
Expected volatility (%)	134.4

BL3 Warrants

Pursuant to the closing of BL3 in June 2017, the Company issued to the lenders an aggregate of 4,000,000 non-transferrable warrants (the “BL3 Warrants”), such number being equal to the amount of the Loan divided by \$0.15. Each BL3 Warrant, which expires June 30, 2018, entitles the holder to purchase one common share of the Company at a price of C\$0.15 per share.

The weighted average fair value of the BL3 Warrants was estimated to be \$0.05 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

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Exercise price (\$)	0.15
Risk free interest rate (%)	1.09
Expected life (years)	0.75
Expected volatility (%)	112.1

Agents' Warrants

In conjunction with the receipt of Tranche 1 in August 2017 (see Note 7), the Company issued 100,844 Agent Warrants with an exercise price of \$0.20, for a period of two years, expiring on August 4, 2019. The value of the Advisor Warrants is equal to 1% of the funds received, with an exercise price equal to 30% above the 5-day VWAP of the Company's shares.

The weighted average fair value of the Agents' Warrants was estimated to be \$0.06 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price (\$)	0.20
Risk free interest rate (%)	1.34
Expected life (years)	1.5
Expected volatility (%)	115.2

c) Share options

The Company has in place an incentive share option plan dated September 20, 2010 (the "Option Plan") for directors, officers, employees and consultants to the Company. The Option Plan provides that the directors of the Company may grant options to purchase common shares on terms that the directors may determine, within the limitations of the Option Plan, including:

- The maximum number of common shares issuable pursuant to options granted under the Option Plan shall not exceed 10% of the outstanding common shares issued at the date of grant and
- The terms of options are a minimum of one year and a maximum of ten years from the date the option is granted, with the most common option terms being two and five years.

Vesting terms are determined for each grant by the Company's Board of Directors.

The weighted average fair value of the share options granted in the nine months ended September 30, 2017 was estimated to be \$0.12 per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Nine months ended September 30, 2017	
Weighted average exercise price (\$)	0.15
Dividend yield	—
Risk free interest rate (%)	1.70
Expected life (years)	3.7
Pre-vest forfeiture rate (%)	5.0
Expected volatility (%)	128.1

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A summary of the changes to share options that are outstanding and exercisable is as follows:

	Nine months ended September 30,			
	2017		2016	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Options outstanding – beginning of period	8,672,500	0.18	8,118,750	0.34
Granted	1,160,000	0.15	–	–
Exercised	–	–	(115,000)	0.14
Expired	–	–	(407,750)	1.54
Forfeited	(7,500)	0.16	(180,000)	0.06
Options outstanding – end of period	9,825,000	0.17	7,416,000	0.28
Options exercisable – end of period	7,752,500	0.18	6,201,000	0.37

Non-cash share-based compensation costs of \$191,000 have been recorded for the nine months ended September 30, 2017, allocated as follows:

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Salaries and benefits	53	5	142	45
Shareholder and investor relations	4	1	20	6
Project administration	6	1	21	6
Camp and related	2	1	8	4
Total share-based compensation	65	8	191	61

The following table summarizes information about share options outstanding and exercisable at September 30, 2017:

Year of Expiry	Range of exercise prices \$	Outstanding			Exercisable		
		Number of options outstanding	Weighted average exercise price \$	Weighted average remaining contractua l life (years)	Number of options exercisable	Weighted average exercise price \$	Weighted average remaining contractua l life (years)
2017	0.45	935,000	0.45	0.1	935,000	0.45	0.1
2018	0.24 – 0.40	1,610,000	0.27	1.0	1,610,000	0.27	1.0
2019	0.13	1,285,000	0.13	2.1	1,285,000	0.13	2.1
2020	0.06	2,430,000	0.06	3.1	2,430,000	0.06	3.1
2021	0.16	2,405,000	0.16	4.2	1,202,500	0.16	4.2
2022	0.15	1,160,000	0.15	5.0	290,000	0.15	5.0
	0.06 – 0.45	9,825,000	0.17	2.8	7,752,500	0.18	2.4

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10 Segmented information

The Company operates in one segment, being mineral exploration and development. Losses for the three and nine months ended September 30, 2017 and 2016 and total assets by geographic location are as follows:

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Loss				
Canada	499	158	916	421
Peru	11,547	471	12,279	1,175
	12,046	629	13,195	1,596

<i>In thousands of dollars</i>	September 30, 2017	December 31, 2016
Total assets		
Canada	75	77
Peru	17,831	28,971
	17,906	29,048

11 Commitment and contingency

Office lease

The Company's remaining lease payments total \$14,000 as at September 30, 2017 for its Vancouver, Canada office lease, which expires March 31, 2018.

SUNAT

In 2008, the Peruvian tax authority, SUNAT, completed an audit of the tax filings of a former AAG Peruvian subsidiary named El Misti Gold ("EMG") for the years 2002 to 2004, and challenged the deductibility of certain property write-offs and foreign exchange losses in those filings. Subsequent to 2008, EMG transferred and/or sold its assets to various entities, including the sale of 13 concessions to IMC that are the source of these SUNAT tax filing challenges. Additionally, EMG no longer exists as a legal entity in Peru.

As the SUNAT challenges for 2003 and 2004 are mainly based on the insufficiency of the carry-forward losses according to SUNAT's determination of EMG's tax obligation of 2002, the result of the 2002 proceeding will have a direct impact on the proceedings of 2003 and 2004. Consequently, the 2003 and 2004 tax proceedings were revoked by the Tax Court, as the existing claims for 2002 need to be resolved first. However, such revocations do not fully terminate and discharge the tax contingency, given that once the Tax Court rules on the 2002 proceeding, SUNAT would be entitled to recalculate the corresponding interest and penalties and, if applicable, pursue action.

The Company has been advised by legal counsel that SUNAT could subsequently initiate an action against IMC as being jointly and severally liable for EMG's tax contingencies in order to collect, at a minimum, the 2002 tax assessment of ~US\$365,000 (excluding interest).

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In the event that the Company is not successful in its appeal of the 2002 tax proceeding or SUNAT chooses to initiate collection action against IMC, management has been advised by Peruvian legal counsel that the maximum value of the related contingent tax assessment would be capped at the market value of the concessions sold by EMG to IMC at the time, which is estimated by an independent valuator to be ~US\$110,000.

As at September 30, 2017, no loss provision has been made for the above-noted remaining SUNAT assessment(s) in these consolidated financial statements as neither the probability or the amount of the contingent amount can be reasonably estimated.