

# **Lupaka Gold Corp.**

**Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2016 and 2015**  
(expressed 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.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited) For the three and nine months ended September 30, 2016 and 2015

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

	September 30, 2016 \$	December 31, 2015 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	73	52
Trade and other receivables (Note 4)	23	20
Prepaid expenses and deposits	43	49
	139	121
<b>Non-current assets</b>		
Equipment (Note 5)	210	262
Mineral properties (Note 6)	27,763	29,067
<b>Total assets</b>	<b>28,112</b>	<b>29,450</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and other accrued liabilities	1,267	1,241
Due to related parties (Note 8)	656	696
Total current liabilities	1,923	1,937
<b>Long-term liabilities</b>		
Provisions for reclamation	273	278
Loan (Note 7)	433	—
Total long-term liabilities	706	278
Total liabilities	2,629	2,215
<b>Equity</b>		
Common shares (Note 9(a))	58,266	57,791
Warrants (Note 9 (b))	1,387	815
Contributed surplus	3,919	3,869
Deficit	(39,326)	(37,730)
Accumulated other comprehensive income	1,237	2,490
Total equity	25,483	27,235
<b>Total liabilities and equity</b>	<b>28,112</b>	<b>29,450</b>

**Nature of operations and going concern** (Note 1)

**Commitments and contingencies** (Notes 6 and 11)

**Supplemental cash flow information** (Note 10)

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

# Lupaka Gold Corp.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited) For the three and nine months ended September 30, 2016 and 2015

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

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Operating expenses</b>				
Exploration				
Camp, community relations and related costs	213	193	443	1,343
Project administration	258	48	732	702
	471	241	1,175	2,045
General and administration				
Salaries and benefits	42	83	151	359
Shareholder and investor relations	3	5	20	169
Professional and regulatory fees	18	22	114	106
Office and general	24	29	77	98
Travel	6	3	11	13
	93	142	373	745
<b>Operating loss</b>	564	383	1,548	2,790
Accretion expense	33	–	33	–
Interest expense	22	–	22	–
Finance income	–	–	–	(5)
Foreign exchange loss (gain)	10	16	(7)	24
<b>Loss for the period</b>	629	399	1,596	2,809
<b>Weighted average number of shares outstanding, basic and diluted</b>	113,415,820	95,482,290	111,098,010	93,534,929
<b>Loss per share, basic and diluted</b>	\$0.01	\$0.00	\$0.01	\$0.03

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Consolidated statements of comprehensive loss</b>				
<b>Loss for the period</b>	629	399	1,596	2,809
Currency translation adjustment on foreign operations	562	(1,591)	1,253	(1,793)
<b>Comprehensive loss</b>	1,191	(1,192)	2,849	1,016

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, 2016 and 2015

(expressed in Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Cash flows from (used in) operating activities</b>				
Loss for the period	(629)	(399)	(1,596)	(2,809)
Adjustment for items not affecting cash:				
Depreciation	11	55	40	113
Accretion	33	–	33	–
Share-based compensation	8	9	61	66
Gain on disposal of equipment	(1)	–	(18)	–
	(578)	(335)	(1,480)	(2,630)
Changes in non-cash working capital				
Trade and other receivables	3	–	(3)	1
Prepaid expenses and deposits	7	15	6	16
Share subscriptions receivable		(50)		(50)
Trade and other payables	161	(26)	26	50
Due to related parties	(2)	(56)	(40)	–
<b>Net cash used in operating activities</b>	<b>(409)</b>	<b>(452)</b>	<b>(1,491)</b>	<b>(2,613)</b>
<b>Cash flows from (used in) investing activities</b>				
Purchase of equipment	–	(54)	(3)	(87)
Proceeds on sale of equipment	–	–	20	–
<b>Net cash from (used in) investing activities</b>	<b>–</b>	<b>(54)</b>	<b>17</b>	<b>(87)</b>
<b>Cash flows from financing activities</b>				
Private placement proceeds, net (Note 9)	–	596	400	596
Proceeds from loan, net (Note 7)	–	–	725	–
Exercises of warrants	146	–	296	–
Exercises of options	16	–	16	–
<b>Net cash from financing activities</b>	<b>162</b>	<b>596</b>	<b>1,437</b>	<b>596</b>
Net increase (decrease) in cash and cash equivalents	(247)	90	(37)	(2,104)
Cash and cash equivalents - beginning of period	293	43	52	2,239
Effect of foreign exchange rate changes on cash and cash equivalents	27	(29)	58	(31)
<b>Cash and cash equivalents - end of period</b>	<b>73</b>	<b>104</b>	<b>73</b>	<b>104</b>

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 nine months ended September 30, 2016 and 2015

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

	Nine months ended September 30			
	2016		2015	
	Number		Number	
<b>Common shares (Note 9 (a))</b>				
Balance – start of period	103,563,251	57,791	92,545,110	57,360
Issued pursuant to a private placement	8,390,000	99	8,818,141	357
Share purchase warrants exercised	2,446,429	350	–	–
Stock options exercised	115,000	26	–	–
Balance – end of period	114,514,680	58,266	101,363,251	57,717
<b>Share purchase warrants (Note 9 (b))</b>				
Balance – start of period		815		541
Issued pursuant to a private placement		301		239
Issued pursuant to loan (Note 7)		325		–
Share purchase warrants exercised		(54)		–
Balance – end of period		1,387		780
<b>Contributed surplus (Note 9 (c))</b>				
Balance – start of period		3,869		3,751
Share-based compensation		61		67
Stock options exercised		(11)		–
Balance – end of period		3,919		3,818
<b>Deficit</b>				
Balance – start of period		(37,730)		(33,930)
Loss for the period		(1,596)		(2,809)
Balance – end of period		(39,326)		(36,739)
<b>Accumulated other comprehensive income</b>				
Balance – start of period		2,490		1,402
Currency translation adjustment on foreign operations		(1,253)		1,793
Balance – end of period		1,237		3,195
<b>Total equity</b>		<b>25,483</b>		<b>28,771</b>

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

# Lupaka Gold Corp.

## Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) For the three and nine months ended September 30, 2016 and 2015

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(expressed 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 properties are located in Peru and are held by Lupaka’s 100%-owned subsidiaries, with the exception of the Josnitoro Gold Project (Note 6).

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. The Company has a working capital deficit of \$1,784,000, a loss of \$1,596,000 for the nine-month period ended September 30, 2016 and a deficit of \$39,326,000.

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. In addition, if the Company is to develop its near-term production-ready Invicta Gold Project, it will be necessary to obtain additional financing – see Note 6.

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.

### 2 Basis of preparation

The principal accounting policies applied in the preparation of these condensed consolidated 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 (“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,

# Lupaka Gold Corp.

## Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) For the three and nine months ended September 30, 2016 and 2015

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(expressed in Canadian Dollars)

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, 2015.

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, 2015.

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 28, 2016.

### **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.

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 ("CGUs") 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



# Lupaka Gold Corp.

## Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) For the three and nine months ended September 30, 2016 and 2015

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(expressed in Canadian Dollars)

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.

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 and can be successfully defended in the appeals process available under Peruvian law. See Note 12.

### *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.

### **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)

# **Lupaka Gold Corp.**

## **Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) For the three and nine months ended September 30, 2016 and 2015**

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(expressed in Canadian Dollars)

### **3 Changes in accounting policy**

The following pronouncements have been issued but are 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 May 2014, 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 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 16 - Leases - In January 2016, the IASB published a new accounting standard, IFRS 16 - Leases ("IFRS 16") which supersedes IAS 17 - Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, has also been applied. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

### **4 Trade and other receivables**

The Company's trade and other receivables consist of goods and services taxes due from the Governments of Canada and Peru. The Company anticipates full recovery of its outstanding trade and other receivables within one year.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)  
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## 5 Equipment

<i>In thousands of dollars</i>	<b>Vehicles and field equipment</b>	<b>Office equip and furniture</b>	<b>Total</b>
<b>Cost</b>			
Balance as at December 31, 2014	698	98	796
Additions	55	7	62
Disposal of equipment	(146)	–	(146)
Balance as at December 31, 2015	607	105	712
Additions	–	3	3
Disposal of equipment	(33)	–	(33)
Foreign exchange	(27)	(8)	(35)
Balance as at September 30, 2016	547	100	647
<b>Accumulated depreciation</b>			
Balance as at December 31, 2014	413	56	469
Depreciation	90	28	118
Disposal of equipment	(137)	–	(137)
Balance as at December 31, 2015	366	84	450
Depreciation	32	8	40
Disposal of equipment	(30)	–	(30)
Foreign exchange	(16)	(7)	(23)
Balance as at September 30, 2016	352	85	437
<b>Carrying amounts</b>			
Balance as at December 31, 2015	241	21	262
Balance as at September 30, 2016	195	15	210

During the nine months ended September 30, 2016, \$36,000 (2015 – \$109,000) of depreciation was included in project administration and \$4,000 (2015 – \$4,000) of depreciation was included in office and general.

# Lupaka Gold Corp.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)  
For the three and nine months ended September 30, 2016 and 2015

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(expressed in Canadian Dollars)

## 6 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 Project ("Invicta")*

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

Invicta contains a well-developed, poly-metallic gold-copper underground deposit located within the group of 5 Victoria concessions acquired from Minera Barrick Misquichilca ("Barrick"). The other 38 Invicta concessions were 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, a wholly-owned subsidiary of Barrick Gold Corporation, which was exercised in 2007. In June 2014, the Company was advised by Barrick that the advance royalty and production royalty agreements were assigned and sold to Franco-Nevada Corporation, a gold-focused 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 \$1,107,000 (US\$800,000). The agreement also calls for advance annual royalty payments of US\$100,000, commencing on the date of exercising the option and every anniversary thereafter. To September 30, 2016, US\$800,000 has been paid for the mining rights and advance royalties, and US\$200,000 is accrued.

In addition to the advance royalty payments, and only on the commencement of commercial production, the Company will be required to also pay US\$50,000 on a quarterly basis, which is capped at a total of US\$800,000.

### *Project financing*

On June 30, 2016, the Company announced that it had executed a definitive Pre-Paid Forward Gold Purchase Agreement (the "Agreement") with PLI Huaura Holdings LP ("PLI"), a limited partnership organized under the laws of British Columbia, to fund the completion of development and initiate production at its Invicta Gold Project ("Invicta"). PLI is an investment vehicle controlled by Pandion Mine Finance ("Pandion").

The gross proceeds of US\$6,100,000 (the "Gold Prepayment Amount") is payable in two tranches of US\$1,800,000 and US\$4,300,000 and will be used to complete mine development, safety and efficiency upgrades, upgrades and completion of access roads and commencement of mining operations as well as general and administrative costs and arrangement fees.

The Company intends to ramp up operations to 350 tonnes per day as quickly as possible using contractors for all aspects of the operation. Receipt of the proceeds from both tranches is

# Lupaka Gold Corp.

## Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) For the three and nine months ended September 30, 2016 and 2015

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(expressed in Canadian Dollars)

dependent upon the Company's completion of certain conditions precedent, which are in the process of being completed.

Each tranche will have a grace period of 15 months after which the Company will deliver to PLI a total of 19,530 ounces of gold for both tranches over the following 45 months. 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 Agreement. During the term of the Agreement, PLI will also share in a portion of the upside on any increase in metal prices.

The Company has the right to buy out and terminate the Agreement at any time and its obligations under the Agreement will be secured by a first charge over the Company's assets.

The Agreement also anticipates a future prepayment estimated to be US\$6-12 million, the proceeds of which would be used to fund the Company's acquisition or construction of a processing plant for the Invicta mine. This additional prepayment would be subject to terms to be agreed.

The carrying value of the Invicta mineral property as at September 30, 2016 is \$10,778,000 (\$11,284,000 – December 31, 2015). The change in carrying value of \$506,000 for the nine months ended September 30, 2016 is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2015 to September 30, 2016.

### ***Crucero Gold Project ("Crucero")***

Crucero is comprised of 6 100%-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 9 concessions are held by LGP and make up the Crucero Gold Project.

The carrying value of Crucero as at September 30, 2016 is \$16,985,000 (\$17,783,000 – December 31, 2015). The change in carrying value of \$798,000 for the nine months ended September 30, 2016 is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2015 to September 30, 2016.

### ***Josnitoro Gold Project ("Josnitoro")***

In November 2013, the Company acquired an option from Hochschild Mining plc ("Hochschild") to earn-in to a 65% interest on Josnitoro (the "Option") in Southern Peru. Josnitoro is an exploration stage gold and copper project in the Department of Apurimac which is comprised of 19 concessions.

The Company would be the project operator and must pay 100% of the cost of the required earn-in activities. In order to exercise the Option to acquire a 65% interest, 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 which shall enable the Company to start exploration within 3 years of the execution of a definitive agreement. Once the aforementioned permits have been obtained, the Company shall have 3 years to

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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 Option. In the event that the Company does not obtain the aforementioned permits, 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 one 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 Option with no penalty.

The carrying value of the Josnitoro Gold Project, for which no consideration has been paid, as at September 30, 2016 and December 31, 2015 was \$Nil.

### 7 Loan

On June 30, 2016, the Company completed a bridge loan financing (the “Loan”) for gross proceeds of \$750,000 with a group of third-party individuals (83%) and Insiders of the Company (17%), (collectively, the “Lenders”). The Company paid \$8,100 cash in finders’ fees in connection with third-party investors and \$16,300 in other costs.

The proceeds were used for the payment of concession fees and trade payables in connection with the advancement of the Company’s mineral properties and for general working capital purposes.

The Loan 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 Loan and accrued and unpaid interest shall be repaid in full on or before the date that is two years after the Closing Date, and pursuant to the closing of the Loan, the Company issued share purchase warrants (“Loan Warrants”) – see Note 9.

The recorded value of the Loan balance as at September 30, 2016 has been calculated as follows:

<i>In thousands of dollars</i>	Liability \$	Equity \$
Balance, January 1, 2016	–	–
Loan proceeds	750	–
Fair value of Loan Warrants issued	(336)	336
Loan issue costs allocated	(13)	(11)
Accretion	32	–
Balance, September 30, 2016	433	325

### 8 Related party transactions

#### (a) Related party expenditures

During the nine months ended September 30, 2016 and 2015, the Company had related party transactions with K-Rok Minerals Inc. (“K-Rok”, a significant shareholder of the Company), which is owned 60% by ABE Industries Inc. (“ABE”), 35% by Havilah Holdings Inc. (“Havilah”) and 5% by another individual. ABE is wholly-owned by Gordann Consultants Ltd., a company in which Gordon Ellis owns a 51% interest and his wife, Margaret Ellis, owns a 49% interest. Gordon Ellis is the Non-Executive Chairman of the Company and a director, and through his spousal and corporate

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ownerships is a greater than 10% shareholder of the Company. Havilah is a company wholly-owned by Geoff Courtnall.

The Company incurred the following expenditures in the normal course of operations in connection with private companies controlled by shareholders (including their immediate family) of K-Rok, and directors as below:

Nature of Transaction <i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Shareholder and investor relations	–	–	–	60
Project administration	–	–	–	38
Salaries and benefits	–	–	–	11
	–	–	–	109

(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 September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Salaries and benefits	66	131	123	450
Share-based compensation	5	7	43	46
Total key management compensation	71	138	166	496

(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, 2016:

- i) \$12,000 was payable to an officer, director and a company controlled by a related party for unpaid services rendered,
- ii) \$644,000 was payable to the former President and C.E.O., pursuant to the October 2015 termination of his employment from the Company, and

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- iii) \$4,000 was payable to an officer, director and a company controlled by a related party for interest on the loan payable.

### 9 Equity

- a) Common shares

Authorized: unlimited with no par value.

On February 19, 2016, the Company closed a non-brokered private placement (the “February 2016 Placement”) and issued 8,390,000 Units priced at \$0.05 per Unit, for gross proceeds of \$419,500. For the February 2016 Placement, each Unit consists of one common share and one transferable common share purchase warrant (the “Placement Warrant”). Each Placement 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 February 2016 Placement and finders' fees to arm's-length parties consisted of \$16,110 in cash. Other share issue costs totalled approximately \$3,500.

The shares and Placement Warrants issued in the 2016 Placement were each subject to a four-month hold period from the date of issue.

During the nine-month period ended September 30, 2016, 2,446,429 common shares were issued for proceeds of \$295,500 on the exercise of 1,017,142 warrants at \$0.15 per share and 1,429,287 warrants at \$0.10 per share. Of the warrants exercised, 1,919,761 were exercised by Insiders of the Company for proceeds of \$226,500.

- b) Share purchase warrants

As a result of the Loan (Note 7) and the February 2016 Placement (Note 9 (a)), the Company has the following share purchase warrants outstanding:

	<b>Weighted average exercise price \$</b>	<b>Number of share purchase warrants</b>
Outstanding – beginning of year	0.21	19,179,784
Placement Warrants issued: February 19, 2019 expiry	0.10	8,390,000
Loan Warrants issued: June 30, 2018 expiry	0.20	3,750,000
Exercised	0.12	(2,446,429)
	0.18	28,873,355

The Placement Warrants are subject to an acceleration clause 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, in which case Lupaka Gold may accelerate the expiry date of the Placement Warrants by giving notice to the holders thereof through the issuance of a press release. In such case, the Placement Warrants will expire on the 30th day after the date on which such notice is given.



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Pursuant to the closing of the Loan, the Company has agreed to issue to the Lenders an aggregate of 3,750,000 non-transferrable warrants (the “Loan Warrants”), such number being equal to the amount of the Loan divided by \$0.20. Each Loan Warrant will entitle the holder to purchase 1 common share of the Company at a price of C\$0.20 per share for a period of 2 years following the Closing Date. Any shares issued pursuant to the exercise of the Loan Warrants will be subject to a statutory hold period under Canadian securities laws, which expires 4 months and 1 day after the Closing Date.

### 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. No options were granted in the nine months ended September 30, 2016.

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

	Nine months ended September 30			
	2016		2015	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Options outstanding – beginning of period	8,118,750	0.34	9,198,000	0.48
Exercised	(115,000)	0.14		
Forfeited	(180,000)	0.06	(537,500)	0.28
Expired	(407,750)	1.54	(811,250)	0.58
Options outstanding – end of period	7,416,000	0.28	7,849,250	0.48
Options exercisable – end of period	6,201,000	0.37	7,134,250	0.52

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Non-cash share-based compensation costs of \$61,000 have been recorded for the nine months ended September 30, 2016 (\$66,000 – nine months ended September 30, 2016), allocated as follows:

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Salaries and benefits	5	6	45	43
Shareholder and investor relations	1	–	6	6
Project administration	1	3	6	15
Camp and related	1	–	4	2
<b>Total share-based compensation</b>	<b>8</b>	<b>9</b>	<b>61</b>	<b>66</b>

The following table summarizes information about share options outstanding and exercisable at September 30, 2016:

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)
2016	1.21	731,000	1.21	0.1	731,000	1.21	0.1
2017	0.45	935,000	0.45	1.1	935,000	0.45	1.1
2018	0.24 – 0.40	1,775,000	0.27	2.0	1,775,000	0.27	2.0
2019	0.125	1,395,000	0.125	3.1	1,395,000	0.125	3.1
2020	0.06	2,580,000	0.06	4.1	1,365,000	0.06	4.1
	0.06 – 1.21	7,416,000	0.28	2.6	6,201,000	0.33	2.3

## 10 Segmented information

The Company operates in one segment, being mineral exploration and development. Losses for the three and nine months ended September 30, 2016 and 2015 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	
	2016	2015	2016	2015
Loss				
Canada	158	160	421	765
Peru	471	239	1,175	2,044
	629	399	1,596	2,809

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<i>In thousands of dollars</i>	September 30, 2016	December 31, 2015
Total assets		
Canada	47	69
Peru	28,065	29,381
	28,112	29,450

### 11 Supplemental cash flow information

Cash and cash equivalents comprise the following:

<i>In thousands of dollars</i>	September 30, 2016	December 31, 2015
Cash on hand and balances with banks	73	52
	73	52

At September 30, 2016, the Company had no short-term investments.

### 12 Commitment and contingency

#### *Office lease*

The Company's remaining lease payments for its Vancouver, Canada office total \$36,000 as at September 30, 2016.

#### *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).

# **Lupaka Gold Corp.**

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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, 2016, no loss provision has been made for the above-noted remaining SUNAT assessment in these condensed consolidated interim financial statements.