Lupaka Gold Corp.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2013 and 2012
(expressed in Canadian Dollars)

(Unaudited)

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)
As at June 30, 2013 and December 31, 2012

(Expressed in thousands of Canadian Dollars, Except Share Data)

	June 30, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	6,376	10,716
Trade and other receivables	218	432
Prepaid expenses and deposits	276	152
	6,870	11,300
Non-current assets		
Investment in Southern Legacy Minerals Inc. (Note 5)	1,181	2,510
Equipment (Note 4)	811	1,003
Mineral properties (Note 6)	27,093	27,967
Total assets	35,955	42,780
Liabilities		
Current liabilities		
Trade and other payables	1,052	1,019
Provision for reclamation	503	544
	1,555	1,563
Equity		
Common shares (Note 8 (a))	56,380	55,782
Share purchase warrants (Note 8 (b))	802	802
Share options (Note 8 (c))	2,436	2,107
Share-based contingent consideration (Note 6)	–	598
Deficit	(25,792)	(19,539)
Accumulated other comprehensive income	574	1,467
Total equity	34,400	41,217
Total liabilities and equity	35,955	42,780

Commitments and contingencies (Notes 6 and 11)

Approved and authorized for issue by the Board on August 8, 2013.

"signed" John Graf
Director

"signed" Eric Edwards
Director

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited)
For the three and six months ended June 30, 2013 and 2012

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

	Three months ended June 30,		**Six months ended June 30,**	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Operating expenses				
Exploration				
Project administration	871	340	1,662	661
Camp, community relations and related costs	786	459	1,430	680
Technical reports, assays and related costs	50	67	222	99
Transportation	12	48	41	92
Reclamation	13	33	27	33
Consulting and professional fees	2	42	10	93
	1,734	989	3,392	1,658
General and administration				
Salaries and benefits	195	212	646	608
Shareholder and investor relations	454	174	624	349
Professional and regulatory fees	50	41	209	170
Office and general	66	55	145	110
Travel	5	10	19	20
Corporate development	–	65	–	64
	770	557	1,643	1,321
Operating loss	2,504	1,546	5,035	2,979
Impairment loss on available-for-sale financial asset (Note 5)	344	–	1,329	–
Finance expense – accretion	–	–	–	22
Finance income	(19)	(8)	(46)	(19)
Foreign exchange loss (gain)	(56)	(1)	(65)	21
Loss for the period	2,773	1,537	6,253	3,003
Loss attributable to:				
Equity owners of the parent	2,773	1,537	6,253	2,975
Non-controlling interest	–	–	–	28
	2,773	1,537	6,253	3,003
Weighted average number of shares outstanding, basic and diluted	84,972,896	44,716,847	83,531,397	44,153,935
Loss per share, basic and diluted (Note 8 (d))	$0.03	$0.03	$0.07	$0.07
Consolidated statements of comprehensive loss				
Loss for the period	2,773	1,537	6,253	3,003
Currency translation adjustment on foreign operations	1,029	(551)	893	(398)
Comprehensive loss	3,802	986	7,146	2,605
Comprehensive loss attributable to:				
Equity owners of the parent	3,802	986	7,146	2,562
Non-controlling interest	–	–	–	43

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)
For the three and six months ended June 30, 2013 and 2012

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

	Three months ended June 30,		Six months ended June 30,	
	2013 $	2012 $	2013 $	2012 $
Cash flows from (used in) operating activities				
Loss for the period	(2,773)	(1,537)	(6,253)	(3,003)
Adjustment for items not affecting cash:				
Foreign exchange loss (gain) on amount payable to non-controlling interest	–	–	–	7
Depreciation	69	21	163	41
Impairment loss on available-for-sale financial asset	344	–	1,329	–
Share-based compensation	149	194	329	442
Loss on write-down of equipment	105	26	105	26
Finance expense (income), net	–	(8)	–	3
	(2,106)	(1,304)	(4,327)	(2,484)
Changes in non-cash working capital				
Trade and other receivables	34	(34)	214	92
Prepaid expenses and deposits	(125)	(17)	(125)	(27)
Due to related parties	–	32	–	(288)
Trade and other payables	(86)	(31)	33	82
Provision for reclamation	(27)	–	(41)	–
Finance income received	–	8	–	19
Net cash used in operating activities	(2,310)	(1,346)	(4,246)	(2,606)
Cash flows from (used in) investing activities				
Final payment for purchase of initial 60% interest in Minera Pacacorral S.A.C. ("MP") (Note 3)	–	–	–	(3,057)
Purchase of equipment	19	(117)	(75)	(199)
Net cash from (used in) investing activities	19	(117)	(75)	(3,256)
Cash flows (used in) from financing activities				
Purchase of non-controlling interest of MP (Note 3)	–	–	–	(4,076)
Proceeds from exercise of options	–	25	–	50
Net cash from (used in) financing activities	–	25	–	(4,026)
Net increase (decrease) in cash and cash equivalents	(2,291)	(1,438)	(4,321)	(9,888)
Cash and cash equivalents - beginning of period	8,696	5,015	10,716	13,477
Effect of foreign exchange rate changes on cash and cash equivalents	(29)	51	(19)	39
Cash and cash equivalents - end of period	6,376	3,628	6,376	3,628

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)
For the six months ended June 30, 2013 and 2012

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

	Six months ended June 30, 2013		Six months ended June 30, 2012	
	Number	**$**	**Number**	**$**
Common shares (Note 8 (a))				
Balance – beginning of period	81,751,769	55,782	39,462,451	24,603
Shares issued (Note 7 (c))	3,221,127	598	–	–
Issued for remaining interest in MP	–	–	5,200,000	5,200
Exercise of options	–	–	100,000	50
Fair value of options exercised	–	–	–	36
Balance – end of period	84,972,896	56,380	44,762,451	29,889
Share purchase warrants (Note 8 (b))				
Balance – beginning and end of period		802		802
Share options (Note 8 (c))				
Balance – beginning of period		2,107		1,289
Share-based payment expense		329		442
Fair value of options exercised		–		(36)
Balance – end of period		2,436		1,695
Share-based contingent consideration (Note 8 (a))				
Balance – beginning of period		598		598
Shares issued (Note 7 (c))		(598)		–
Balance – end of period		–		598
Deficit				
Balance – beginning of period		(19,539)		(6,202)
Purchase of non-controlling interest (Note 3)		–		(3,769)
Loss for the period – attributable to the shareholders of the Company		(6,253)		(2,975)
Balance – end of period		(25,792)		(12,946)
Accumulated other comprehensive income				
Balance – beginning of period		1,467		262
Currency translation adjustment on foreign operations		(893)		413
Balance – end of period		574		675
Non-controlling interest				
Balance – beginning of period		–		5,758
Comprehensive loss for the period – attributable to the non-controlling interest		–		(43)
Contributions from non-controlling shareholders		–		–
Acquisition of non-controlling interest by the Company		–		(5,715)
Balance – end of period		–		–
		34,400		20,713

1 Nature of operations

Lupaka Gold Corp. ("Lupaka") was incorporated in Canada on November 3, 2000, with limited liability 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. In January 2012, Lupaka acquired the remaining 40% of Minera Pacacorral S.A.C. ("MP") that it did not own, and on October 1, 2012 Lupaka acquired 100% of the shares of Andean American Gold Corp. ("Andean American") and its subsidiaries, as well as a 17% ownership interest in Southern Legacy Minerals Inc. ("Southern Legacy") – see Notes 3 and 5.

Lupaka's registered office is located at 700 – 595 Howe Street, Vancouver, BC, V6C 2T5 and its records office is located at 428 – 800 West Pender Street, Vancouver, BC, V6C 2V6. Lupaka's common shares trade in Canada on the Toronto Stock Exchange ("TSX") and in Peru on the Borsa de Valores de Lima ("BVL", otherwise known as the Lima Stock Exchange) under the symbol LPK, and in Germany on the Frankfurt Exchange under the symbol LQP. Lupaka's share purchase warrants trade on the TSX under the symbol LPK.WT.

Collectively, Lupaka, MP and Andean American and its subsidiaries are referred to hereafter as "the Company".

2 Basis of preparation

These interim consolidated financial statements have been prepared on a basis consistent with the accounting policies expected to be applied for the year ending December 31, 2013 and follow the same accounting policies and methods of application as the 2012 annual consolidated financial statements, except that the company has adopted the following new or amended International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") effective January 1, 2013:

- IFRS 10, Consolidated financial statements,
- IFRS 11, Joint arrangements,
- IFRS 12, Disclosures of interests in other entities,
- IAS 1, Presentation of items of other comprehensive income, and
- IFRS 13, Fair Value Measurement and disclosure requirements

These new standards did not affect the Company's financial results.

2.1 Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements prepared using IFRS. These interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the year ended December 31, 2012.

These consolidated financial statements were approved by the Company's Board of Directors on August 8, 2013.

2.2 Basis of consolidation

The results of subsidiaries acquired or disposed of during the period 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 consolidated financial statements include the accounts of Lupaka and its subsidiaries, all of which are 100% owned:

- Andean American, a Canadian company (inactive)
- MP, 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)

Andean American, IMC, AES and Greenhydro were acquired on October 1, 2012.

3 Acquisitions

Purchase of remaining interest in MP

Effective January 19, 2012, the Company acquired the remaining 40% interest in MP. As a result, the Company owns 100% of the Crucero Gold Project ("Crucero"). The Company acquired the remaining 40% interest in MP from the non-controlling shareholders of MP for a total purchase price of $4,076,000 (US $4,000,000) in cash and 5,200,000 common shares of the Company (with a fair value of $1.00 per share). As part of the closing of the acquisition, the Company made an early payment of the final $3,057,000 (US $3,000,000) that was required to be paid by July 15, 2012 to complete the Company's acquisition of its initial 60% interest in MP.

For accounting purposes, the initial acquisition of 60% of MP was considered a purchase of assets. The Company's purchase of the remaining 40% of the shares of MP has been accounted for as an equity transaction with the excess in fair value of consideration, less equity of the non-controlling interest, allocated to deficit.

The following is a summary of the MP-related purchase price components, and the allocation of equity acquired on January 19, 2012:

	Purchase price ($000's)
Cash consideration paid	4,076
Fair value attributed to early payment	208
Fair value of 5,200,000 common shares issued	5,200
Non-controlling interest as at January 19, 2012	(5,715)
Charged to deficit	3,769

Acquisition of Andean American

Effective October 1, 2012, the Company completed a Plan of Arrangement with Andean American (the "Closing"), whereby each Andean American common share was exchanged for 0.245 common shares of Lupaka. The acquisition of Andean American has been accounted for as a purchase of assets.

All Andean American share options outstanding at the Closing ("Andean American Options") were deemed to be exchanged for share options of Lupaka, issued under the Lupaka Stock Option Plan, on the basis of 0.245 of a Lupaka common share for one Andean American common share, at an exercise price per Lupaka common share determined by dividing the exercise price per Andean American common share subject to such Andean American Option by 0.245.

All Andean American share purchase warrants outstanding at the Closing ("Andean American Warrants") were maintained by Lupaka, in accordance with the terms and conditions of the original Andean American Warrants, in a number determined on the basis of 0.245 of a Lupaka common share for one Andean American common share, at an exercise price per Lupaka common share determined by dividing the exercise price per Andean American common share subject to such Andean American Warrant by 0.245.

The purchase price, totalling $26.7 million reflects the following:

i) The fair value of the Lupaka shares issued based on the issuance of 36,989,318 common shares of Lupaka at Cdn$0.70 per share, which represents the market price of the common shares on the date of issuance; and

ii) Lupaka's transaction costs totalling $770,000

The following is a summary of the purchase price components, and the allocation of the net assets acquired on October 1, 2012:

	Purchase price ($000's)
36,989,318 common shares of Lupaka	25,893
Transaction costs	770
Purchase price	26,663

Net assets acquired:	($000's)
Cash and cash equivalents	13,502
Other current assets	182
Investment in Southern Legacy Minerals Inc.	3,986
Plant & equipment	583
Current liabilities	(1,842)
Mineral properties	10,252
Net assets acquired	26,663

The fair value of the investment in Southern Legacy was based on the publicly-traded market price as at the Company's date of acquisition of Andean American.

4 Equipment

	Vehicles and field equipment ($000's)	**Office equipment and furniture** ($000's)	**Total** ($000's)
Cost			
Balance as at December 31, 2012	1,018	152	1,170
Balance as at June 30, 2013	964	177	1,141
Accumulated depreciation			
Balance as at December 31, 2012	124	43	167
Balance as at June 30, 2013	245	85	330
Carrying amounts			
Balance as at December 31, 2012	894	109	1,003
Balance as at June 30, 2013	719	92	811

During the six months ended June 30, 2013, $154,000 (2012 – $37,000) of depreciation and a write-down of $105,000 (2012 – $26,000) in the carrying value of vehicles and field equipment was included in project administration and $9,000 (2012 – $4,000) of depreciation was included in office and general.

5 Investment in Southern Legacy Minerals Inc.

As a result of the Andean American acquisition, the Company owns 9,841,269 common shares in Southern Legacy, representing approximately 17% of the issued and outstanding ownership shares of Southern Legacy, and which the Company classifies as an available-for-sale financial asset.

As at June 30, 2013, the aggregate fair market value of this investment was $1,181,000 ($2,510,000 – December 31, 2012), as indicated by the closing price of the shares as quoted by the TSX Venture Exchange, for which the Company has recorded an impairment loss of $1,329,000 for the six months ended June 30, 2013 (three months ended June 30, 2013 – $344,000 impairment loss) in other operating expenses. Southern Legacy's common shares also trade on the BVL.

6 Mineral properties

The Company's mineral properties are comprised of nine concessions covering approximately 5,500 hectares that are owned by MP and which make up the Crucero Gold Project located in southeast Peru, and forty-eight concession and petition claims covering approximately 36,000 hectares that are owned by Invicta and which make up the Invicta Gold Project located in northwest Peru.

Crucero Gold Project ("Crucero")

The Crucero concessions are comprised of six 100%-owned mining concessions (which are not subject to any royalty interest) and three mining concessions held under a 30-year assignment which expires in September 2038 (which are 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).

To acquire its initial 60% ownership of MP, the Company entered into a mineral property identification and acquisition agreement with K-Rok, which acted as an agent for the Company. Additionally, on July 26, 2010 the Company entered into an Assignment and Assumption Agreement with K-Rok, as assignee of K-Rok's interests in the Minera Pacacorral Purchase Agreement (the "MP Purchase Agreement"), pursuant to which the Company assumed the rights and obligations of K-Rok.

Under the MP Purchase Agreement, the vendors of MP sold to the Company 60% of the issued and outstanding shares of MP in July 2010, in consideration for the payment of a total of US $10,000,000. Of the total consideration, US $7,000,000 was paid prior to December 31, 2011, with the remaining US $3,000,000 payable on July 15, 2012.

The consideration payable to K-Rok pursuant to the Assignment and Assumption Agreement for the Crucero Gold Project consisted of the following:

(a) Issue 4,000,000 common shares of the Company to K-Rok (which have been issued and recorded at a fair value of $200,000).

(b) Issue two additional common shares of the Company (the "K-Rok Contingent Shares") for each ounce by which the gold resource for the six mining concessions that form part of Crucero are increased over the baseline resource of 808,695 ounces by an updated resource estimate based on all exploration completed on the six mining concessions to December 31, 2012.

On the date of the Assignment and Assumption Agreement with K-Rok, management calculated the fair value of the obligation to issue the K-Rok Contingent Shares using a weighted average probability analysis of the reported ounces in future updated resource estimates in accordance with IFRS 2 Share-Based Payments. The analysis included assumptions based on management's estimate at the time of acquisition of a) probable ounces at the time of the issue of the additional shares, b) the probable time of issuance of the additional shares, and c) the estimate of the Company's estimated share price at the time of issuance of the additional shares. A fair value of $598,000 was included as a cost of the initial acquisition of the Crucero mineral properties.

Based on the results of a February 2013 resource update and pursuant to the terms of the Assignment and Assumption Agreement, Lupaka issued 3,221,127 common shares to K-Rok on March 22, 2013, which were subject to a four month hold period that expired on July 22, 2013 (Note 7).

As part of the closing of the Company's acquisition of the remaining 40% interest in MP (see Note 3), the Company made an early payment of the final $3,057,000 (US $3,000,000) that was otherwise required to be paid by July 15, 2012 in order to complete the Company's acquisition of its existing 60% interest in MP. The carrying value of this final payment was $2,819,000 on December 31, 2011, as the original carrying value of this purchase obligation was calculated by using a discounted cash flow model, which uses assumptions concerning the timing of estimated future cash flows and credit-adjusted discount rates.

The carrying value of Crucero as at June 30, 2013 is $16,579,000 ($17,114,000 – December 31, 2012). The decrease in carrying value of $535,000 for the six months ended June 30, 2013 (three months ended June 30, 2013 – $605,000 decrease) is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2012 to June 30, 2013.

Invicta Gold Project ("Invicta")

In connection with the Company's acquisition of Andean American (Note 3), the Company acquired Invicta, located in the Lima Region of central Peru. Invicta was originally acquired by Andean American by way of an October 2005 option agreement with Minera Barrick Misquichilca ("Barrick"), a wholly-owned subsidiary of Barrick Gold Corporation ("ABX"), that was exercised in 2007. The option agreement requires the Company to pay Barrick a 1% Net Smelter Royalty ("NSR") capped at US$1 million. The agreement also calls for advance annual royalty payments of US$100,000, commencing on the date of exercising the option and every anniversary (in May) thereafter. To June 30, 2013, US$700,000 has been paid in advance royalties. In addition to the advance royalty payments, and only on the commencement of production, the Company will be required to pay Barrick on a quarterly basis an amount of US$50,000, which is capped at a total of US$800,000.

Pursuant to the terms of a separate option agreement reached with Barrick Gold Corporation ("ABX"), the Company is required to provide ABX with a copy of any completed Invicta Feasibility Study, and ABX's subsidiary, Barrick, has a 90-day period to review the study. If such a study demonstrates more than two million ounces of mineable gold-only reserves at Invicta, ABX, through its subsidiary Barrick, has the option to exercise a back-in-right. Should ABX choose to exercise this back-in-right, they would be required to pay the Company 150% of all costs incurred at Invicta in exchange for 51% of the project. The most recent Invicta Feasibility Study was provided to ABX in early 2012 and does not demonstrate, under the Canadian Institute of Mining Metallurgy definition, two million ounces of mineable gold-only reserves at Invicta. In addition, Barrick has a 30 day calendar day right of first refusal ("ROFR") in the event that the Company wishes to transfer part or all of its shares and mining rights of the properties acquired pursuant to the Barrick option agreement No ROFR was applicable to the Company's acquisition of Andean American.

The carrying value of the Invicta mineral property as at June 30, 2013 is $10,514,000 ($10,853,000 – December 31, 2012). The decrease in carrying value of $339,000 for the six months ended June 30, 2013 (three months ended June 30, 2013 – $395,000 decrease) is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2012 to June 30, 2013.

7 Related party transactions

Details of transactions between the company and other related parties are disclosed below.

(a) Related party expenditures

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 ("S") and a director ("D") of the Company as below:

		Six months ended June 30	
Nature of Transaction	**Related Party**	**2013** ($000's)	**2012** ($000's)
Project administration	S, D	43	40
Shareholder and investor relations	S	80	60
Salaries and benefits	S, D	22	20
Technical reports, assays and related costs	S	3	4
Total related party expenditures		148	124

(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:

	Six months ended June 30	
	2013 ($000's)	**2012** ($000's)
Salaries, fees and benefits	612	451
Share-based compensation	182	209
Total key management compensation	794	660

(expressed in Canadian Dollars)

(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.

Pursuant to the terms of the Assignment and Assumption Agreement, Lupaka issued 3,221,127 common shares to K-Rok on March 22, 2013, subject to a four month hold period (Note 6).

As at June 30, 2013 and December 31, 2012, there were no amounts payable to related parties.

8 Equity

a) Common shares

Authorized: unlimited with no par value.

3,221,127 common shares were issued to K-Rok on March 22, 2013, which were subject to a four month hold period that expired July 22, 2013 (Notes 6 and 7).

b) Share purchase warrants

The following table summarizes information about the share purchase warrants outstanding and exercisable at June 30, 2013:

Expiry date	**Exercise price $**	**Number of share purchase warrants**
June 28, 2014	2.25	6,666,667
February 12, 2015	1.87	612,500
	2.22	7,279,167

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. 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.

Under the Option Plan, 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 frequent option terms being two and five years. Vesting terms are determined for each grant by the Company's Board of Directors. The options granted in the six months ended June 30, 2013 vest in equal amounts beginning on or up to six months from the date of grant and ending up to twenty-four months from the date of grant.

(expressed in Canadian Dollars)

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

	Number of options	Weighted average exercise price $
Outstanding, December 31, 2012	6,348,475	0.86
Granted	1,265,000	0.44
Forfeited	(477,325)	0.85
Cancelled	(434,875)	1.93
Expired	(4,900)	1.63
Outstanding, June 30, 2013	6,696,375	0.72
Exercisable, June 30, 2013	5,110,125	0.80

The weighted average fair value of all share options granted in the six months ended June 30, 2013 was estimated to be $0.17 (2012 – $1.01) per option at the grant date using the Black-Scholes option-pricing model and based on the following assumptions:

	Six months ended June 30	
	2013	**2012**
Weighted average exercise price ($)	0.44	1.32
Weighted average market price ($)	0.32	1.32
Dividend yield	–	–
Risk free interest rate (%)	1.08	1.31
Expected life (years)	2.7	3.9
Expected volatility (%)	101	121

Option pricing models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

The volatility was calculated using historical volatility of comparable companies as an expectation of the Company's future volatility.

Non-cash share-based compensation costs of $329,000 have been recorded for the six months ended June 30, 2013 (2012 – $442,000), and were allocated as follows:

	Three months ended June 30		Six months ended June 30	
	2013 $	2012 $	2013 $	2012 $
Salaries and benefits	51	81	160	197
Project administration	23	83	61	170
Shareholder and investor relations	70	27	96	67
Camp and related	3	–	7	–
Consulting and other	2	3	5	8
Total share-based compensation	149	194	329	442

The following table summarizes information about share options outstanding and exercisable at June 30, 2013:

		Outstanding			**Exercisable**		
Year of Expiry	**Range of exercise prices $**	**Number of options outstanding**	**Weighted average exercise price $**	**Weighted average remaining contractual life (years)**	**Number of options exercisable**	**Weighted average exercise price $**	**Weighted average remaining contractual life (years)**
2015	1.71 – 4.08	73,500	2.05	1.9	73,500	2.05	1.9
2015	0.30 – 0.75	2,950,000	0.50	2.2	2,387,500	0.50	2.3
2016	2.00 – 3.63	385,875	2.30	3.1	385,875	2.30	3.1
2016	0.50 – 1.21	1,282,000	1.11	3.3	1,282,000	1.11	3.3
2017	0.45	1,490,000	0.45	4.4	877,500	0.45	4.4
2018	0.32 – 0.43	515,000	0.38	4.7	103,750	0.37	4.7
	0.30 – 4.08	6,696,375	0.72	3.1	5,110,125	0.80	3.0

d) Earnings/loss per share

Basic loss per share is calculated by dividing the loss of the Company by the weighted average number of common shares outstanding during the period.

9 Segmented information

The Company operates in one segment, being mineral exploration and development. Losses for the three and six months ended June 30, 2013 and 2012 and total assets by geographic location are as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2013 ($000's)	**2012** ($000's)	**2013** ($000's)	**2012** ($000's)
Loss				
Canada	1,039	467	2,860	1,321
Peru	1,734	1,070	3,393	1,682
	2,773	1,537	6,253	3,003

	June 30, 2013 ($000's)	**December 31, 2012** ($000's)
Total assets		
Canada	7,535	13,414
Peru	28,420	29,366
	35,955	42,780

10 Supplemental cash flow information

Cash and cash equivalents comprise the following:

	June 30, 2013 ($000's)	**December 31, 2012** ($000's)
Cash on hand and balances with banks	436	3,220
Short-term investments	5,940	7,496
	6,376	10,716

At June 30, 2013, the Company's short-term investments are invested in GIC's and premium investment savings accounts in place at three major Canadian chartered banks, and are cashable at any time.

11 Contingencies

Andean American and its subsidiaries are being sued by an undisclosed person in Peru for calumny (making of false and defamatory statements to damage someone's reputation). This person is claiming for damages in the amount of 3,000,000 Soles (approximately US$1,100,000). The Company has entered a defence to the action, and management is of the opinion that the claim is without merit. Defence of the claim is in the preliminary stages and, while no probable outcome can be determined at this time, management believes the Company will be successful in defending this claim. Accordingly, no estimated loss provision has been made in these consolidated financial statements.

SUNAT, the Peruvian tax authority, completed its audit of the tax filings of a former Andean American Peruvian subsidiary for the years 2002 to 2004. SUNAT has challenged the deductibility of certain property write-offs and foreign exchange losses in those filings that may result in additional tax assessments and the imposition of fines and interest amounting in total to approximately US$5,000,000. The Company is of the opinion that these deductions are legitimate and can be successfully defended in the appeals processes that are available under Peruvian law, which may take as long as five years to reach a conclusion. As at June 30, 2013, no loss provision has been made in these consolidated financial statements.