Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Presented in Canadian Dollars)

Independent auditor's report

To the Shareholders of Lupaka Gold Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lupaka Gold Corp. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Leonard Wadsworth.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 12, 2020

Lupaka Gold Corp.

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018

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

	December 31, 2019	December 31, 2018
Assets		
Current assets		
Cash	76	233
Receivables (Note 6)	11	76
Inventory	-	71
Prepaid expenses and deposits	12	35
	99	415
Non-current assets		
Value-added tax receivable (Note 6)	-	843
Equipment (Note 7)	1	272
Mineral property under development (Notes 8 and 11)	-	22,149
Total assets	100	23,679
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	760	2,716
Due to related parties (Note 9)	29	62
Due to PLI (Note 11 (b))	20,847	-
Loans (Note 10)	-	539
Deferred revenue (Note 11 (c))	-	3,056
Metals derivative liability (Note 11 (d))	-	3,413
	21,636	9,786
Long-term liabilities		
Reclamation and closure cost obligations (Note 8)	-	758
Total liabilities	21,636	10,544
Shareholders' Equity		
Common shares (Note 12 (a))	59,625	59,360
Warrants (Note 12 (b))	1,524	813
Contributed surplus	6,709	5,845
Deficit	(88,552)	(54,519)
Accumulated other comprehensive income (loss)	(842)	1,636
Total equity	(21,536)	13,135
Total liabilities and equity	100	23,679

Nature of operations and going concern (Note 1)
Contingency and commitments (Notes 9 and 11)
Subsequent event (Note 12 a))

Approved and authorized for issue by the Board of Directors on June 11, 2020

signed "Gordon Ellis"
Director

signed "Mario Stifano"
Director

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

Lupaka Gold Corp.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2019 and 2018

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

	2019	2018
Operating expenses		
Exploration		
Camp, community relations and related costs, net of recoveries	-	(259)
Project administration	-	58
	-	(201)
General and administration		
Salaries, benefits and fees	443	821
Professional and regulatory fees	158	155
Office and general	52	97
Shareholder and investor relations	41	126
Travel	7	39
Corporate development	2	173
	703	1,411
Operating loss	703	1,210
Loss due to loss of control over subsidiary (Note 11 (e))	18,673	–
Write-down of LGP assets	17	–
Loss on re-measurement of PLI liability (Note 11 (b))	14,593	–
Financing expenses (Note 20)	333	1,054
Gain on metals derivative liability (Note 11 (d))	(284)	(2,570)
Interest income	(2)	–
Gain on sale of equipment	–	(9)
Net loss (earnings) for the period	34,033	(315)
Other comprehensive loss (income)		
Items that may be reclassified to profit or loss		
Change in fair value of securities	–	567
Items that may be reclassified to profit or loss		
Currency translation adjustment on foreign operations	389	(1,022)
Reclassified to loss due to loss of control over subsidiary	2,089	–
Comprehensive loss (income) for the period	36,511	(770)
Weighted average number of shares outstanding, basic and diluted		
Basic	143,361,246	121,167,286
Diluted		127,206,361
Loss (earnings) per share, basic and diluted	$0.24	($0.00)

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

Lupaka Gold Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(presented in Thousands of Canadian Dollars)

	2019	2018
Cash flows from (used in) operating activities		
Net (loss) income for the period	(34,033)	315
Adjustment for items not affecting cash:		
Loss due to loss of control over subsidiary (Note 11 (e))	18,673	–
Write-down of LGP assets	17	–
Loss on re-measurement of PLI liability (Note 11(b))	14,593	–
Unrealized foreign exchange (Note 17)	(4)	(156)
Finance expense (loan accretion) (Note 17)	1	332
Share-based compensation expense (Note 12)	153	296
Gain on metals derivative liability (Note 11 (d))	(284)	(2,570)
Finance expense (Note 17)	328	781
Depreciation	1	–
	(555)	(1,002)
Changes in non-cash working capital		
Trade and other receivables	(1)	(35)
Prepaid expenses and deposits	23	226
Inventory	3	(71)
Accounts payables and accrued liabilities	223	(406)
Settlement liabilities	(33)	37
Due to/from related parties (Note 9)	(25)	(192)
Net cash used in operating activities	(365)	(1,443)
Cash flows from (used in) investing activities		
Mineral property costs	(423)	(6,547)
Proceeds on sale of marketable securities	–	3,391
Purchase of equipment	–	(202)
Net cash used in investing activities	(423)	(3,358)
Cash flows from financing activities		
Proceeds from private placement, net (Note 12)	636	–
PLI Financing (Note 11)	–	3,143
Exercises of warrants	–	414
Exercises of options	–	32
Repayment of loans (Note 12)	–	(360)
Net cash from financing activities	636	3,229
Net decreases in cash	(152)	(1,572)
Cash- beginning of year	233	1,656
Effect of foreign exchange rate changes on cash	(5)	149
Cash - end of year	76	233

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018

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

	2019		2018	
	Number	**$**	**Number**	**$**
Common shares (Note 12 (a))				
Balance – beginning of year	122,009,860	59,360	118,734,680	58,774
Issued pursuant to private placements	11,083,333	31	–	–
Shares issued for debt	15,416,175	234	–	–
Share purchase warrants exercised	–	–	2,841,430	531
Stock options exercised	–	–	433,750	55
Balance – end of year	148,509,368	59,625	122,009,860	59,360
Share purchase warrants (Note 12 (b))				
Balance – beginning of year		813		1,286
Issued pursuant to a private placement		587		–
Shares-for-debt warrants issued		772		–
Finders warrants issued pursuant to private placement		17		–
Issued pursuant to loans (Note 10)		–		245
Share purchase warrants exercised		–		(117)
Share purchase warrants expired		(665)		(436)
Share purchase warrants canceled		–		(184)
Agent’s warrants issued pursuant to PLI Financing (Note 12)		–		19
Balance – end of year		1,524		813
Contributed surplus				
Balance – beginning of year		5,845		4,802
Share-based compensation		199		445
Share purchase warrants canceled		–		184
Share purchase warrants expired		665		436
Stock options exercised		–		(22)
Balance – end of year		6,709		5,845
Deficit				
Balance – beginning of year		(54,519)		(54,834)
Net loss for the period		(34,033)		315
Balance – end of year		(88,552)		(54,519)
Accumulated other comprehensive income				
Balance – beginning of year		1,636		1,181
Change in fair value of securities		–		(567)
Currency translation adjustment on foreign operations		(389)		1,022
Reclassified to loss due to loss of control over subsidiary		(2,089)		–
Balance – end of year		(842)		1,636
Total shareholders’ equity		(21,536)		13,135

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

1 Nature of operations and going concern

Lupaka Gold Corp. ("Lupaka" or "the Company") was incorporated in Canada on November 3, 2000 under the legislation of the Province of British Columbia, and is in the business of acquisition, exploration and development of mineral resource properties. Lupaka was dormant prior to January 1, 2010.

Lupaka's head office, and records and registered offices are located at 1569 Dempsey Road, North Vancouver, BC V7K 1S8. 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".

The Company presently does not have any active projects as a result of its loss of ownership of the Invicta Gold Project ("Invicta") to PLI Huaura Holdings LP ("PLI"; see Note 11). However, management is continuing to actively seek out gold exploration projects for potential development and investment.

Going Concern

These Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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.

As at December 31, 2019, the Company has a working capital deficit (current assets less current liabilities) of $21,537,000 (December 31, 2018 - $9,371,000 deficit) and accumulated deficit of $88,552,000 (December 31, 2018 – accumulated deficit of $54,519,000). For the year ended December 31, 2019, the Company incurred a loss of $34,033,000 (2018 – net income of $315,000) and used cash in operating activities of $365,000 (2018 – cash used of $1,443,000).

The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flow from operating activities or to raise funds primarily through the issuance of shares or obtaining alternative financing, which it has been successful in doing so in the past. There can be no assurance that sufficient financing can be obtained in the future. As a result, there are material uncertainties that cast significant doubt about the Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business.

As the outcome of these matters cannot be predicted at this time, if the Company is unable to generate positive cash flow from operating activities or obtain additional financing, management may be required to further curtail certain expenses.

In 2020, there was a global outbreak of coronavirus (COVID-19) that has resulted in changes in global supply and demand of certain mineral and energy products. These changes, including a potential economic downturn and any potential resulting direct and indirect negative impact to the Company cannot be determined, but they could have a potential material impact to the Company's activities, cash flows, liquidity and its ability to raise additional capital. Various restrictions on gatherings, work and access to remote communities near the Company's potential/future projects may also impact the Company's ability to perform operational activities.

2 Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently followed, unless otherwise stated.

2.1 Reclassification of comparative figures

Certain comparative figures as at December 31, 2018 have been changed as a result of a reclassification of such figures.

2.2 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Company's Board of Directors on June 11, 2019.

2.3 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.4 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 consolidated financial statements include the accounts of Lupaka and its wholly-owned subsidiaries, which are as follows:

- Andean American Gold Corp. ("AAG"), a Canadian company
- Lupaka Gold Peru S.A.C. ("LGP"), a Peru company
- Invicta Mining Corp S.A.C. ("IMC"), a Peru company, until the loss of control of IMC on July 2, 2019. See Note 11.
- Andean Exploraciones S.A.C. ("AES"), a Peru company (inactive)
- Greenhydro S.A.C. ("Greenhydro"), a Peru company (inactive)

2.5 Significant accounting judgments and key sources of estimate uncertainty

In preparing these consolidated 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 consolidated 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.

Basis of preparation (continued)

Significant accounting judgments

The following are the significant judgments and 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 consolidated financial statements.

Valuation of the derivative related to deferred revenues – Management has determined that, as a result of PLI's termination, the carrying value of the derivative related to deferred revenues is Nil. See Note 11 for the discussion of the fair valuation of the PLI liability.

Going concern assumption – presentation of the consolidated financial statements which assumes that the Company will continue in operation for the foreseeable future, will 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.

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. The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

2.6 Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

3 Significant accounting policies

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries disclosed in Note 2. All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. Control exists where the parent entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

3.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian Dollars, which is

Lupaka's and AAG's functional currency. The functional currency of LGP, IMC (until the loss of control of IMC on July 2, 2019), AES and Greenhydro is United States Dollars ("USD").

Significant accounting policies (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items are re-valued using the spot rate at the consolidated statements of financial position date. Foreign exchange gains and losses resulting from

the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of loss. When a gain or loss on a non-monetary item is recognized in other comprehensive loss or income, any foreign exchange component of that gain or loss is recognized in other comprehensive loss or income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(c) Subsidiaries

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;

(ii) Income and expenses for each statement of loss are translated at average exchange rates for the period;

(iii) Equity items are translated at historical rates; and

(iv) All resulting exchange differences are recognized in other comprehensive loss until the disposal of the subsidiary.

When the Company disposes or no longer controls a foreign operation, the foreign currency gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss or income related to the subsidiary are reallocated between controlling and non-controlling interests.

3.2 Financial assets and other financial liabilities

a) Financial Assets at Amortized Cost
Cash and other receivables with fixed or determinable payments that are not quoted in an active market are classified as held at amortized cost. Such assets are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss relating to receivables, if any, is based on a review of all outstanding amounts at period end.

b) Financial Assets at Fair Value Through Other Comprehensive Income (“FVOCI”)

Financial assets at FVOCI are equity securities that are not held for trading and which the Company has irrevocably elected at initial recognition to recognize in this category. Gains and losses arising from changes in fair value are recorded in other comprehensive income (“OCI”). When these equity securities are disposed, any related balance within FVOCI is classified to retained earnings and will not be reclassified to profit or loss.

Significant accounting policies (continued)

c) Financial Liabilities at Amortized Cost

Financial liabilities are measured at amortized cost unless they are required to be measured at fair value through profit and loss ("FVTPL"), such as instruments held for trading or derivatives, or where the Company has opted to measure such liabilities at FVTPL. The amount due to PLI is measured at FVTPL.

Financial liabilities are recognized initially at fair value and subsequently measured at amortized cost and include accounts payable and accrued liabilities, loans, settlement liabilities and amounts due to related parties. Accounts payables and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable, accrued and settlement liabilities are measured at amortized cost using the effective interest method. Loans are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

d) Metals derivative liabilities at FVTPL

Derivative instruments, including metals derivative liabilities, are measured at FVTPL and, accordingly, are recorded on the statement of financial position at fair value. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the statement of financial position date or settlement date of the derivative. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

De-Recognition of Financial Assets and Liabilities

A financial asset is de-recognized when the contractual right to the asset's cash flows expire or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

3.3 Inventory

Inventory is comprised of supplies inventory at the mine site and is recorded at cost.

3.4 Mineral property under development

Mineral property under development is stated at cost less accumulated amortization and accumulated impairment charges, if any. The costs associated with mineral property under development include direct costs and acquired interests in development, exploration and production-stage properties. Mineral property under development also includes the capitalized costs of associated mineral properties after acquisition of the properties, the costs incurred during the development of mineral properties (once feasibility has been established) and the deferred stripping costs after the commencement of production. Capitalization of pre-commercial production ceases when the mining property is capable of commencement of mining operations in the manner intended by management.

When mineral property under development is brought into production, they will be amortized on a unit-of-production basis. Upon sale or abandonment of its mineral property under development, the

Significant accounting policies (continued)

cost and related accumulated depreciation are written off and any gains or losses thereon are included in income or loss for the year.

3.5 Exploration and evaluation expenditures

Exploration and evaluation expenditures comprise costs which are directly attributable to: researching and analyzing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. All exploration and evaluation expenditures are expensed as incurred, net of proceeds from the sale of metal extracted during the evaluation and exploration phase.

Once management has determined that the property is economically viable and technically feasible, the decision to proceed with development has been approved, and the necessary permits are in place for its development, development costs will be capitalized to mineral property under development.

3.6 Impairment of non-current assets

At each reporting date, the Company reviews the carrying amounts of its non-current assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent with other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. The Company has determined that it has two CGU's. The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves and resources, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in the consolidated statement of loss and comprehensive loss.

Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or CGU in prior years. A reversal of impairment is recognized as a gain in the consolidated statement of loss and comprehensive loss. During the year ended December 31, 2019, the Company recorded an impairment of certain non-current assets related to Invicta as a result of loss of control over IMC, which owns Invicta. Also see Note 11(e).

A significant or prolonged decline in the fair value of an equity security below its cost is evidence that the assets are impaired. The Company considers a prolonged period to be six months from the time that the carrying value is below cost, while taking into consideration the investment volatility in its determination of a significant decline.

Significant accounting policies (continued)

3.7 Share capital

Common shares are classified as equity. The proceeds from the exercise of share options or warrants together with amounts previously recorded on grant date or issue date are recorded as share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.8 Share-based compensation

The Company has a share-based compensation plan under which the entity receives services from employees, directors and non-employees as consideration for equity instruments (share options) of the Company.

The fair value of share options granted to employees is measured on the grant date and share options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense, with a corresponding increase in contributed surplus. The total amount to be expensed is determined by reference to the fair value of the options granted and the related vesting periods. The fair value is determined by using the Black-Scholes option pricing model where the fair value of services cannot be estimated reliably. Non-market vesting conditions are included in the estimate of the number of options expected to vest. At each financial reporting date, the amount recognized as an expense is adjusted to reflect the actual number of options expected to vest. Any change from estimate is recognized with a corresponding adjustment to equity. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

When share options are exercised, the proceeds received and the initial fair value of the share options in contributed surplus are credited to share capital.

No expense is recognized for awards that do not ultimately vest.

3.9 Share purchase warrants

Share purchase warrants ("warrants") are measured at their fair value on the date of grant and are recorded as a separate component of equity. When a warrant is exercised, the initial fair value of the warrant, as determined on the grant date, is transferred to share capital. The initial fair values of warrants that expire unexercised are transferred to contributed surplus.

3.10 Earnings per share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding during the year. The diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, in the weighted average number of common shares outstanding, if dilutive. Diluted earnings per share is calculated using the treasury share method, in which the assumed proceeds from the potential exercise of those share options and warrants whose average market price of the underlying shares are used to purchase the Company's common shares at their average market price for the period. In a year when net losses are incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

For the year ended December 31, 2019 – 40,414,795 shares to be issued on the exercise of share options and share purchase warrants have been excluded from the calculation of diluted loss per share because the effect is anti-dilutive.

Significant accounting policies (continued)

3.11 Reclamation provision

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company records the fair value of a provision for site reclamation and closure as a liability in the period in which it incurred a legal or constructive obligation associated with the reclamation of the mine site and the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The obligation is measured initially at present value based on estimated future cash flows derived using internal information and third-party reports. The estimated cost is capitalized and included in the carrying value of the related mineral property under development and is depreciated using either the straight-line method or UOP method, as appropriate.

The provision is initially discounted using a current market-based pre-tax discount rate and subsequently increased for the unwinding of the discount. The unwinding of the discount is charged to earnings or loss for the period.

At each reporting date, the Company reviews its reclamation provision and closure to reflect the current best estimate. The reclamation provision and closure is adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or the market-based pre-tax discount rate, with the offsetting amount recorded to the reclamation and closure asset included in mineral property under development which arises at the time of establishing the provision.

3.12 Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within financing costs.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

3.13 Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of loss and comprehensive loss for the year, except to the extent that it relates to items recognized in other comprehensive loss or income or directly in equity. In this case, the tax is also recognized in other comprehensive loss or income or directly in equity, respectively.

(a) Current tax

Current income taxes are calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It

Significant accounting policies (continued)

establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.14 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's Chief Executive Officer. The Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person who makes strategic decisions as the chief operating decision maker.

The Company’s operations are limited to a single reportable segment, being exploration and development of its mineral property under development. The Company’s geographical segments are determined by the location of the Company’s assets and liabilities.

3.15 Valuation of equity units issued in private placements

The fair value of the common shares issued in the private placements was determined to be the pro rata portion of the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date and the pro rata fair value attributable to the warrants that was calculated using the Black-Scholes pricing model. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

4 New Accounting Standards and Recent Pronouncements

IFRS 16 – Leases was issued in January 2016 and is effective for periods beginning on or after January 1, 2019. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The adoption of the standard had no impact on the Company's financial statements.

5 Marketable securities

On November 20, 2017, the Company closed the sale of its formerly-owned Crucero Gold Project and acquired 3,500,000 common shares of Goldmining Inc. (TSXV: GOLD, the "GOLD Shares. During 2018, the Company sold its remaining GOLD Shares, for $3,399,000, realizing a total loss of $830,000.

6 Receivables

a) Receivables - consist of goods and services taxes due from the Government of Canada. The Company anticipates full recovery of its current receivables within one year; and

b) Due from IMC – with the Company's loss of its ownership of Invicta Mining Corp. ("IMC"; see Note 11), net intercompany advances previously made by Lupaka or its corporate assignees to IMC total approximately US$15.4 million including interest. However, management has estimated that the likelihood of collectability from IMC and/or its owners is uncertain and subject to legal proceedings. Consequently, the Company's carrying value for accounting purposes for the IMC receivable as at December 31, 2019 is $Nil.

7 Equipment

In thousands of dollars	**Vehicles and field equipment**	**Office equipment and furniture**	**Total**
Cost			
Balance as at December 31, 2017	275	86	361
Additions	7	195	202
Disposals	–	(22)	(22)
Foreign exchange	24	24	48
Balance as at December 31, 2018	306	283	589
Additions	–	–	–
Foreign exchange loss	(9)	(11)	(20)
De-recognition of assets on loss of control of IMC	(198)	(190)	(388)
Write-down of LGP's net assets	(99)	(80)	(179)
Balance as at December 31, 2019	–	2	2
Accumulated depreciation			
Balance as at December 31, 2017	183	83	266
Depreciation	29	13	42
Disposals	–	(22)	(22)
Foreign exchange	17	14	31
Balance as at December 31, 2018	229	88	317
Depreciation	21	13	34
Foreign exchange	(7)	(5)	(12)
De-recognition of assets on loss of control of IMC	(146)	(18)	(164)
Write-down of LGP's net assets	(97)	(77)	(174)
Balance as at December 31, 2019	–	1	1
Carrying amounts			
Balance as at December 31, 2018	77	195	272
Balance as at December 31, 2019	–	1	1

8 Mineral property under development

The Company's Invicta Gold Project comprised the Company's sole mineral property under development.

The Company acquired Invicta, in the Lima Region of central Peru, in connection with the Company's October 2012 acquisition of AAG.

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.

After the acquisition of Invicta by the Company in October 2012, costs associated with Invicta were expensed as exploration expenditures up to and including July 2017. Beginning in August 2017, such expenditures were capitalized to mineral property under development as management determined that with the August 2017 receipt of Tranche 1 of the PLI Financing, the project was able to proceed to construction and pre-production.

The components of the carrying value of the Invicta mineral property under development costs are as follows:

In thousands of dollars	**Acquisition Costs**	**Concession Fees**	**Infra-structure**	**Community**	**Project Admin**	**Total**
Cost						
Balance, December 31, 2018	12,802	211	6,315	1,567	1,254	22,149
Additions	-	28	56	120	676	880
Foreign exchange	(416)	(6)	(185)	(45)	(27)	(679)
De-recognition of assets on loss of control of IMC[1]	(12,386)	(233)	(6,186)	(1,642)	(1,903)	(22,350)
Balance, December 31, 2019	-	-	-	-	-	-

[1] – with the Company's loss of its ownership and control of IMC and all its assets and liabilities, the Company has adjusted the carrying value of the components of the Invicta mineral property under development costs to Nil. See also Note 11.

9 Related party transactions

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

a) Related party expenditures

During the year ended December 31, 2019, the Company:

- accrued $16,000 (net of tax) for consulting and advisory services to Havilah Holdings Inc. ("Havilah"). Havilah is a co-owner of K-Rok Minerals Inc., a >10% shareholder of the Company, which is owned 60% by ABE Industries Inc. ("ABE"), 35% by 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 Chairman and CEO of the Company and a director, and through his spousal and corporate ownerships is a greater than 10% shareholder of the Company;
- paid $40,100 in interest payments related to the Company's bridge loans, to a former officer, a director and former director and/or companies controlled by them or a related party, including $32,400 due as at December 31, 2018. As at December 31, 2018, these individuals' bridge loan holdings comprised all $90,000 of BL2 and all $450,000 of BL3. The bridge loan principal amounts and $18,600 of interest payments were repaid in their entirety in the Company's shares-for-debt transaction ("SFD Transaction") in March 2019 (Note 15). The balance of $21,500 in BL2 and BL3 interest was settled with the related note-holders for cash.

(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 for the years ended December 31, 2019 and 2018 is shown below:

In thousands of dollars	**2019**	**2018**
Salaries, fees and benefits	406	615
Share-based compensation	174	378
Total	580	993

Related party transactions (continued)

Of the $406,000 included in salaries and benefits during the year ended December 31, 2019, approximately $209,000 in remuneration was for severance paid in SFD Transaction Units and common shares in 2019. See Note 12.

(c) Due to current and former related parties

Amounts due to or from 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 December 31, 2019:

- $2,100 was payable to ABE and $27,300 was payable to Havilah for services rendered in 2019 and prior years, both of which are included in Due to Related Parties;
- $20,696 was payable to a former CEO of the Company for previously deferred salary, which is included in Accounts Payable;
- $15,641 was payable to a former CFO of the Company for outstanding management fees, which is included in Accounts Payable; and
- $266,750 was payable to a former CEO of the Company pursuant to a March 2018 settlement agreement between the parties, which is included in Accounts Payable.

10 Loans

Bridge Loan 2 ("BL2")

Effective January 12, 2017 ("BL2 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. No finders' fees were paid in connection with this bridge loan.

BL2 was unsecured and bore 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 was payable in full on or before the earlier to occur of: (i) three months after the Company received an advance of funds of at least $8.0 million in new financing, if the noteholder requested repayment of BL2; and (ii) the date that is two years after the BL2 Closing Date (being January 12, 2019).

Pursuant to the closing of BL2, the Company issued share purchase warrants ("BL2 Warrants") – see Note 12.

In May 2018, the Company paid $210,000 in principal plus $9,000 of accrued interest to noteholders who requested repayment in accordance with the terms of BL2.

In March 2019 the Company reached an agreement with the remaining BL2 noteholders to convert all of the remaining principal and most of the interest into Units of the Company. Each Unit was priced at $0.06 and consisted of one common share of the Company and one transferable common share purchase warrant, with each warrant entitling the holder to acquire one common share of the Company at a price of $0.10 for a period of 30 months from the date of closing.

Loans (continued)

Following is a continuity schedule for BL2:

In thousands of dollars	**Liability**
Balance, December 31, 2017	211
Loan accretion	88
Loans repaid	(210)
Balance, December 31, 2018	89
Loan accretion	1
Loans repaid with Lupaka Units	(90)
Balance, December 31, 2019	–

Bridge Loan 3 ("BL3")

Effective June 30, 2017 ("BL3 Closing Date"), 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. No finders' fees were paid in connection with this bridge loan.

BL3 was unsecured and bore simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually.

The BL3 principal and accrued and unpaid interest was payable in full on or before: (i) three months after the Company received any additional and/or new financing of at least $4.0 million, if the noteholder requested repayment of BL3; or (ii) the date that was six months after the BL3 Closing Date, whichever was the earlier.

Pursuant to the closing of BL3, the Company issued share purchase warrants ("BL3 Warrants") – see Note 12.

In May 2018 the Company's directors extended the term of the BL3 loan to June 30, 2019. As a result of the extension, the previously issued BL3 warrants ("BL3a Warrants") were cancelled and new BL3 warrants ("BL3b Warrants") were issued – see Note 12.

Also, in May 2018, the Company paid $150,000 in principal plus $6,000 of accrued interest to BL3noteholders who requested repayment in accordance with the terms of BL3.

In March 2019 the Company reached an agreement with the remaining BL3 noteholders to convert all of the remaining principal and most of the interest into Units of the Company. Each Unit was priced at $0.06 and consisted of one common share of the Company and one transferable common share purchase warrant, with each warrant entitling the holder to acquire one common share of the Company at a price of $0.10 for a period of 30 months from the date of closing.

Following is a continuity schedule for BL3:

In thousands of dollars	**Liability**
Balance, December 31, 2017	600
Loans repaid	(150)
Fair value of BL3b Warrants issued	(245)
Finance expense	245
Balance, December 31, 2018	450
Loans repaid with Lupaka Units	(450)
Balance, December 31, 2019	–

11 Due to PLI and loss due to loss of control over IMC

a) PLI Financing Agreement, Notice of Default and Early Termination

By agreement dated June 30, 2016 and amended August 2, 2017, the Company executed the PLI Financing Agreement with PLI to fund US$7 million for the completion of development and to initiate production at IMC's Invicta Gold Project – see Deferred Revenue below.

On July 2, 2019, the Company received a formal Notice of Acceleration ("Acceleration Notice") from PLI regarding the PLI Financing Agreement. The Acceleration Notice claims that as a result of existing specified claims of alleged default, PLI declared an early termination date of the loan and requested immediate payment of approximately US$15.6 million. In October 2019, the Company was advised that PLI had seized all of the ownership shares of IMC, effective July 2, 2019, resulting in the Company losing all of its control of IMC and Invicta.

On November 12, 2019, the Company received a Notice of Indemnification and Reservation of Rights letter dated November 8, 2019 from PLI Huaura Holdings L.P., which primarily demanded that the Company make the indemnification payments to PLI in respect of the PLI Financing Agreement (which PLI claims, as of October 31, 2019, totals an aggregate of approximately US$16 million), and all other amounts outstanding under the PLI Financing Agreement were to be paid immediately on demand and that PLI hereby made a demand for payment of such amounts. Additionally, an independent valuation of IMC (the "IMC Valuation") ordered by the independent trustee holding the IMC ownership shares under the PLI Financing Agreement's Security Agreement produced a value of approximately US$13 million for the IMC ownership shares seized by PLI.

Arbitration Claim made under the Canada-Peru Free Trade Agreement ("CPFTA")

The specified claims of default relate primarily to the Company's inability to make scheduled repayments against the PLI Financing Agreement as a result of the ongoing illegal road blockade carried out by the community of Paran at Invicta. Despite numerous requests for resolution assistance from local and federal government officials of the Republic of Peru, the requested assistance was not provided and the blockade continued, resulting in the Company's loss of its ownership of IMC and the Invicta Gold Project.

On December 12, 2019, the Company delivered to the Peruvian Minister of Economy and Finance a Notice of Intent to Submit a Claim to Arbitration in accordance with the 2009 Free Trade Agreement between Canada and Peru (the "CPFTA Arbitration"). In this respect, the Company has engaged Lalive (London, UK) LLP to represent its interests in the CPFTA Arbitration.

This illegal road blockade, which commenced in October 2018 and which management believes still continues to date, prevents access to the Invicta site.

The Company does not agree with PLI's estimation of the early termination amount as set out in the Acceleration Notice or their enforcement on security pursuant to the Acceleration Notice and the Security Agreement related to the PLI Financing Agreement.

On November 25, 2019, the Company responded to PLI, noting that the Company:

- disputes that there remains an outstanding amount due and unpaid of US$15.6 million on the debt; and
- believes that PLI's early termination clause was not part of the PLI Financing Agreement for the purpose of giving PLI an opportunity to create a windfall benefit to PLI.

Due to PLI and loss due to loss of control over IMC (continued)

b) Deferred revenue

The gross proceeds received from the PLI Financing Agreement was US$7 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$2.5 million ("Tranche 3", received in February 2018).

Each Tranche had a grace period of 15 months after which the Company was to deliver to PLI a total of 22,680 ounces of gold over the subsequent 45 months. For the repayment ounces, the Company would receive an amount per ounce of gold equal to the market price at the time, less a fixed discount. After the ounces of gold had been delivered, the Company would have no further obligations under the PLI Financing Agreement. During the term of the PLI Financing Agreement, PLI would also share in the upside on any increase in certain metal prices above the base spot price established in the PLI Financing Agreement.

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

Concurrent with the receipt of Tranche 1, one-time upfront fees of US$900,000 were paid to PLI. These fees were netted pro-rata against all three Tranches within Deferred Revenue.

c) Due to PLI and loss on re-measurement of PLI liability

Management disagree with PLI's estimate of approximately US$16 million (as of October 31, 2019) owed to PLI as a result of PLI's termination of the PLI Financing Agreement. However, in the absence of any discharge, payment or settlement of this disputed obligation, as at December 31, 2019, the Company has recorded a Due to PLI liability of $20.8 million (US$16.1 million).

Following is the calculation for the loss on the re-measurement of the PLI Liability:

	2019
In thousands of dollars	**CAD**
Due to PLI – principal and interest	20,847
Less adjustments to:	–
Deferred revenue	(3,253)
Metals derivative liability	(3,001)
Loss on re-measurement of PLI liability	14,593

The likelihood of PLI continuing to pursue collection of their asserted US$16 million or any other amounts PLI asserts are owed after their seizure of IMC is indeterminable. However, with PLI's seizure of the ownership and control of IMC, which was valued at approximately US$13 million, management asserts that PLI is not entitled to anything further from the Company.

Due to PLI and loss due to loss of control over IMC (continued)

Lupaka continues to consider all actions available to it in response to PLI's Acceleration Notice and foreclosure actions, and the Company's resulting loss of control of IMC and Invicta.

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 related to Tranche 3, which were included in financing expenses in the statement of loss by March 31, 2018:

1. Cash consideration of $252,000, (US$200,000) ("Agents' Fees"), equivalent to 8% of the funds received, of which US$161,000 remains unpaid and is included in Accounts Payable; and

2. Agents' Warrants, with a Black Scholes valuation of $19,000, equivalent to 1% of the funds received, with an exercise price of $0.255, and a two-year term expiring on February 9, 2020, respectively (See Note 12 (b)).

Management determined that the net proceeds from the Invicta financing received from PLI, less any Other Metals Option value, for the future delivery of gold ounces from production at the Invicta Project at contractual prices meet the accounting criteria for deferred revenue.

By March 31, 2018, all of the three Tranches were received, with the fair value of the other metals option included in Metals Derivative Liability.

Following are the continuity schedules for deferred revenue for the years ended December 31, 2019 and 2018:

	2019		**2018**	
In thousands of dollars	**CAD**	**USD**	**CAD**	**USD**
Balance, beginning of year	3,056	2,240	1,177	938
Tranches, net	–	–	3,224	2,500
Less: Other metals derivative liability	–	–	(2,050)	(1,590)
Financing fee accretion	328	246	509	392
Foreign exchange	(130)	–	196	–
Balance, July 2, 2019	3,254	2,486		
Re-measured as new financial liability	(3,254)	(2,486)		
Balance, end of year	–	–	3,056	2,240

For the year ended December 31, 2019, the financing fee accretion was $328,000 (year ended December 31, 2018 - $509,000) and the foreign exchange gain was $130,000 (year ended December 31, 2018 – $196,000 loss).

Due to the loss of control of IMC, the deferred revenue was re-measured and included in the Due to PLI liability, as the Company will no longer deliver gold into the related, now-terminated PLI Financing Agreement.

Due to PLI and loss due to loss of control over IMC (continued)

d) Metals derivative liability

The metals derivative liability, a Level 2 financial instrument, was determined to be a distinct and separate obligation under the PLI Financing Agreement as it provided some upside to PLI in the event that prices for non-gold metals (specifically silver, copper, lead, and zinc) exceed baseline levels set on inception of the PLI Financing Agreement, noting that this relates only to production of metals at Invicta during the tenure of the PLI Financing Agreement.

Consequently, the metals derivative liability is measured and accounted for separately from the related PLI prepayment deferred revenue.

Following are the continuity schedules for the Company's other metals derivative liability for the years ended December 31, 2019 and 2018:

	2019		**2018**	
In thousands of dollars	**CAD**	**USD**	**CAD**	**USD**
Balance, beginning of year	3,413	2,502	3,627	2,891
Additions: Tranche derivative liability	–	–	2,050	1,589
Upside payments	(1)	(1)	(10)	(7)
Revaluation	(283)	(208)	(2,570)	(1,971)
Foreign exchange	(128)	–	316	–
Balance, July 2, 2019	3,001	2,293		
Re-measured as new financial liability	(3,001)	(2,293)		
Balance, December 31	–	–	3,413	2,502

For the year ended December 31, 2019, the revaluation decreased the liability by $283,000 (year ended December 31, 2018 –$2,570,000) and the foreign exchange impact was a gain of $128,000 (year ended December 31, 2018 – $316,000 loss).

With the Company's loss of its ownership of IMC and all of its assets and liabilities, the metals derivative liability was re-measured and included in the Due to PLI liability.

Due to PLI and loss due to loss of control over IMC (continued)

e) Loss due to loss of control over subsidiary and the Invicta Gold Project

As a result of PLI's termination of the PLI Financing Agreement and their subsequent seizure of the shares and control of IMC, the Company's investment in IMC has been impaired as follows:

In thousands of dollars	**2019** **CAD**
Impairment of intercompany loans to IMC	14,881
Impairment of net IMC assets	5,881
Cumulative translation adjustments reclassified to loss due to loss of control over subsidiary	(2,089)
Loss due to loss of control of IMC	18,673

12 Equity

a) Common shares

Authorized: unlimited with no par value.

On June 10, 2020, the Company completed a non-brokered private placement with third-party individuals raising gross proceeds of $100,000 and issuing 5,000,000 common shares at a price of $0.02 per common share. All of the shares issued are subject to a 4- month hold period from the date of issuance.

On March 13, 2019, the Company completed a non-brokered private placement unit Offering with third-party individuals raising gross proceeds of $665,000 and issuing 11,083,333 units (the “March 2019 Unit”) priced at $0.06 per unit. Each March 2019 Unit consists of one common share and one transferable common share purchase warrant (each, a “March 2019 Warrant”) entitling the holder to purchase one additional common share at $0.10 per share for a period of thirty months from the date of the closing of the Offering.

In connection with the subscriptions received in the Offering, the Company paid finders' fees of $19,350 and issued 322,500 non-transferable common share purchase warrants (each, a "Finders' Warrant") entitling the holder to acquire one common share of the Company at a price of $0.10 per share for a period of 30 months from the date of the closing of the Offering.

The Company also completed an SFD Transaction in March 2019. Under the SFD Transaction, the Company issued 14,566,175 Units to several creditors under the same terms and pricing as the Private Placement to settle $873,971 in bridge loans and short-term accounts payable in Canada. Each Unit converted at a deemed price of $0.06. Certain directors and officers of the Company participated in the SFD Transaction, totalling $156,250 converting to 2,604,166 Units. In addition to the finders' fees above, share issue costs totalled approximately $10,000 and related to both the Offering and the SFD Transaction.

On February 7, 2019, the Company issued 850,000 common shares to a creditor at a deemed price of $0.155 per share.

(presented in Canadian Dollars)

Equity (continued)

During the year ended December 31, 2018, 3,275,180 common shares were issued for proceeds of $446,700 from the exercise of 2,841,430 share purchase warrants for proceeds of $414,250 at a weighted average price of $0.146 per share and 433,750 stock options were exercised for proceeds of $32,450 at a weighted average price of $0.075 per share.

b) Share purchase warrants

The Company has the following share purchase warrants outstanding as at December 31, 2019:

		Outstanding and Exercisable		
Year of Expiry	Range of exercise prices $	Number of warrants outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)
2020[(1)]	0.23 – 0.26	2,122,787	0.23	0.4
2021	0.10	25,972,008	0.10	1.7
	0.10 – 0.26	28,094,795	0.11	1.6

(1) – expired in February 2020

Following is a continuity schedule for the Company's warrants, for the year ended December 31, 2019 and 2018:

	2019		2018	
	Number of share purchase warrants	Weighted average exercise price $	Number of share purchase warrants	Weighted average exercise price $
Warrants outstanding – beginning of year	14,402,662	0.15	27,047,397	0.15
Placement Warrants issued	11,083,333	0.10	-	-
SFD Warrants issued	14,566,175	0.10	-	-
Finders Warrants issued	322,500	0.10	-	-
Warrants expired	(12,279,875)	0.14	(9,259,425)	0.16
Bridge Loan 3b Warrants issued	-	-	3,333,333	0.18
Bridge Loan 3a Warrants (canceled)	-	-	(4,000,000)	0.15
Agent's Warrants issued	-	-	122,787	0.26
Warrants exercised	-	-	(2,841,430)	0.15
Warrants outstanding – end of year	28,094,795	0.11	14,402,662	0.15

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 expired January 12, 2019, entitles the holder to purchase one common share of the Company at a price of $0.20 per share.

(presented in Canadian Dollars)

Equity (continued)

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

On January 12, 2019, all 1,500,000 BL2 warrants expired.

May 2017 Warrants
Pursuant to the closing of the May 2017 private placement, 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

As at December 31, 2019, there were 2,000,000 May 2017 Warrants outstanding.

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 “BL3a Warrants”), such number being equal to the amount of the Loan divided by $0.15. The BL3a Warrants, which were to expire June 30, 2018, entitled the holder to purchase one common share of the Company at a price of $0.15 per share.

In May 2018, the Company’s directors extended the term of the BL3 loan to June 30, 2019. As a result of the extension the 4,000,000 outstanding warrants were canceled and 3,333,333 new non-transferrable warrants were issued (the “BL3b Warrants”), such number being equal to the amount of the Loan divided by $0.18. The BL3b Warrants, which expired in June 2019, entitled the holder to purchase one common share of the Company at a price of $0.18 per share.

Also, in May 2018, the Company paid $150,000 in principal plus $6,000 of interest to noteholders who requested repayment in accordance with the terms of BL3. Because of the early repayment, the expiry date of the BL3b Warrants held by those noteholders was changed to June 4, 2019, one year from the issuance of the warrants.

(presented in Canadian Dollars)

Equity (continued)

The weighted average fair value of the BL3b Warrants was estimated to be $0.07 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	2019
Weighted average exercise price ($)	0.18
Dividend yield	–
Risk free interest rate (%)	2.0
Expected life (years)	1.0
Pre-vest forfeiture rate (%)	0
Expected volatility (%)	102.8

Agents' Warrants

In conjunction with the receipt of Tranche 1 in August 2017 (see Note 11), the Company issued 100,844 Agents' Warrants with an exercise price of $0.20, for a period of two years, expiring on August 4, 2019. The value of the Agents' 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 fair value of the Tranche 1 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

On September 4, 2019, all 100,844 Tranche 1 Agents' Warrants expired.

In conjunction with the receipt of Tranche 2 in November 2017, the Company issued 145,698 Agents' Warrants with an exercise price of $0.175, for a period of two years, expiring on November 7, 2019. The value of the Agents' 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 fair value of the Tranche 2 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 ($)	0.175
Risk free interest rate (%)	1.40
Expected life (years)	1.5
Expected volatility (%)	111.8

On November 7, 2019, all 145,698 Tranche 2 Agents' Warrants expired.

In conjunction with the receipt of Tranche 3 in February 2018, the Company issued 122,787 Agents' Warrants with an exercise price of $0.255, for a period of two years, expiring on February 9, 2020. The value of the Agents' 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.

(presented in Canadian Dollars)

Equity (continued)

The fair value of the Tranche 3 Agents' Warrants was estimated to be $0.15 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.26
Risk free interest rate (%)	1.77
Expected life (years)	2.0
Expected volatility (%)	118.7

As at December 31, 2019, there were 122,787 Tranche 3 Agents' Warrants outstanding.

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 five years.

Vesting terms are determined for each grant by the Company's Board of Directors. The options granted in the years ended December 31, 2019 and 2018 vest in equal amounts beginning as early as on the date of grant and ending up to eighteen months from the date of grant.

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

	2019		**2018**	
	Number of share options	**Weighted average exercise price $**	**Number of share options**	**Weighted average exercise price $**
Options outstanding – beginning of year	10,162,500	0.14	9,425,000	0.15
Granted	4,200,000	0.06	3,525,000	0.17
Exercised	–	–	(433,750)	0.07
Forfeited	(1,352,500)	0.13	(948,750)	0.14
Expired	(780,000)	0.13	(1,405,000)	0.27
Options outstanding – end of year	12,230,000	0.12	10,162,500	0.14

Equity (continued)

The weighted average fair value of the share options granted in the year ended December 31, 2019 was estimated to be $0.02 (year ended December 31, 2018 – $0.13) per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	2019	2018
Weighted average exercise price ($)	0.06	0.17
Dividend yield	–	–
Risk free interest rate (%)	1.5	2.1
Expected life (years)	3.3	3.4
Forfeiture rate (%)	10.5	10.8
Expected volatility (%)	132.6	126.0

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 $199,000 have been recorded for the year ended December 31, 2019 (2018 – $445,000), and allocated as follows:

In thousands of dollars	2019	2018
Salaries and benefits	139	274
Shareholder and investor relations	14	22
Development costs (capitalized)		
Project Administration	40	128
Community	6	21
Total share-based compensation	199	445

The following table summarizes information about share options outstanding and exercisable at December 31, 2019:

		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)**
2020	0.06	1,400,000	0.06	0.9	1,400,000	0.06	0.9
2021	0.12 – 0.18	1,680,000	0.16	1.9	1,661,250	0.16	1.9
2022	0.15	1,850,000	0.15	2.8	1,850,000	0.15	2.8
2023	0.12 – 0.23	3,100,000	0.18	3.6	2,725,000	0.19	3.6
2024	0.05 – 0.10	4,200,000	0.06	4.6	1,175,000	0.06	4.5
	0.05 – 0.23	12,230,000	0.12	3.3	8,811,250	0.14	2.8

13 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2019 and 2018 are as follows:

In thousands of dollars	**2019**	**2018**
Deferred income tax assets:		
Non-capital loss carry-forwards, net	2,239	2,206
Property and equipment	–	7,079
Net capital loss carry-forwards	412	412
Share issuance costs	85	119
Reclamation obligation	–	240
Other	46	43
Deferred income tax assets, net	2,782	10,099
Unrecognized tax assets	(2,782)	(10,099)
	–	–

a) The tax expense differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

In thousands of dollars, except statutory rate	**2019**	**2018**
Earnings (loss) before income tax expense (recovery)	(34,033)	315
Average statutory rate	27.00%	27.00%
Expected income tax recovery at statutory rates	(9,189)	85
Non-deductible expenses	1,304	(354)
Loss of tax assets on loss of control	7,213	–
Effect of different tax rates in foreign jurisdictions	(1,105)	53
Difference in prior year tax returns	1	(632)
Tax benefits not recognized	9,081	–
Expiration of tax losses	–	93
Difference in future and current tax rates	(1)	(75)
Impact of difference in functional and tax currencies	16	(475)
Amounts charged to equity	(3)	137
Unrecognized tax assets	(7,317)	1,168
Income tax expense	–	–

b) Losses carried forward

The Company has non-capital losses in Canada and Peru, for which deductions against future taxable income are uncertain, of approximately $14.4 million (2018 - $13.7 million) and $1.6 million (2018 - $3.2 million), respectively. The Canadian losses, if not utilized, will expire over 2029 through 2039, while the Peruvian losses, if not utilized, will expire over 2022 through 2023. Deferred income tax benefits which may arise as a result of the non-capital losses in the respective Peruvian entities have not been recognized as there is no reasonable certainty that they are likely to be realized in future periods.

14 Segmented information

The Company has two reportable segments. Peru is the Company's principal operating business and includes its mineral property under development. Canada includes the Canadian corporate office and the Company's Management. The Company's reportable segments are based on the reports reviewed by Management that are used to make strategic decisions. Earnings for the nine-month periods and total assets by segments are as follows:

In thousands of dollars	**2019**	**2018**
Loss (earnings)		
Canada	15,326	(271)
Peru	18,707	(44)
	34,033	(315)

In thousands of dollars	**December 31, 2019**	**December 31, 2018**
Total assets		
Canada	100	105
Peru	–	23,574
	100	23,679

15 Capital management

The Company's objective when managing capital structure is to maintain liquidity in order to ensure the Company's strategic acquisition, exploration, business development and production objectives are met. In the management of capital, the Company defines capital as its shareholders' equity (2019 – ($21,536,000); 2018 – $13,135,000).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company intends to continue to assess new resource properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company's annual and updated budgets are approved by the Board of Directors.

At December 31, 2019, the Company is seeking opportunities to obtain further funding to pay liabilities as they come due.

16 Financial risk factors

(a) Financial risk exposure and risk management

The Company’s activities expose it to a variety of financial risks, which include credit, liquidity, market, foreign exchange, interest rate, and commodity price risks.

Financial risk management is carried out by the Company's management team with oversight from the Company’s Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (Note 1). The Company manages its liquidity risk through the management of its capital structure and assets.

At December 31, 2019 and 2018, the Company’s undiscounted contractual obligations and their maturity dates were as follows:

In thousands of dollars	December 31, 2019	December 31, 2018
Trade and other payables (within 1 year)	21,636	2,778
Bridge Loans (1 year)	–	540
Deferred revenue and derivative liability (within 5 years)	–	9,549
Total	21,636	12,867

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign exchange rates, prices, interest rates, and commodity prices.

Interest rate risk

The Company is exposed to financial risk related to the fluctuation of interest rates.

Foreign exchange risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company had subsidiaries that operate in Peru and as such, a portion of its expenses were incurred in Peruvian Nuevo Soles, the Company’s functional currency in Peru, and US Dollars. A significant change in the currency exchange rates would have an effect on the Company’s results of operations. The Company has not hedged its exposure to currency fluctuations.

Financial risk factors (continued)

The Company is exposed to foreign exchange risk through the following financial assets and liabilities denominated in US Dollars ("US$") and Peruvian Nuevo Soles ("PEN"):

	December 31, 2019		December 31, 2018	
	US$	**PEN**	**US$**	**PEN**
Cash	9,000	–	135,000	104,000
Current assets	–	–	129,000	2,411,000
Current liabilities	(16,220,000)	–	(8,149,000)	(1,547,000)

Based on the above net exposure as at December 31, 2019, and assuming that all other variables remain constant, a 10% appreciation (depreciation) of the Canadian Dollar against the US Dollar and/or Peruvian Nuevo Soles would result in an increase or decrease of approximately +/- $2,105,000 (2018 – $1,037,000) in the Company's net loss for the year.

(b) Fair value of financial instruments

IFRS 7 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); and
- Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and valuation techniques may have a material effect on the estimated fair value amounts.

The fair values of cash, trade and other receivables and trade and other payables approximate carrying value because of their short-term nature. At December 31, 2019, the Company had no marketable securities that are categorized as Level 1 in the fair value hierarchy above that are measured and recognized in the consolidated statement of financial position at fair value.

At December 31, 2019, the Company had no financial instruments that would be categorized as Level 2 in the fair value hierarchy above, while the Due to PLI liability can be categorized as Level 3 in the fair value hierarchy above. At December 31, 2018, only the deferred revenue and other metals derivative liability arising from the PLI Financing were measured and recognized in the consolidated statement of financial position at fair value that would be categorized as Level 2 in the fair value hierarchy above.

17 Financing expenses

In thousands of dollars	2019	2018
Financing expenses	328	781
Foreign exchange loss (gain)	(5)	(156)
Interest expense	8	97
Loan accretion	1	332
Total	332	1,054