

Lupaka Gold Corp.

Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019 and 2018
(Presented in Canadian Dollars)

(Unaudited)

NOTICE TO READER

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

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

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

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

As at September 30, 2019 and December 31, 2018

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

	September 30, 2019 \$	December 31, 2018 \$
Assets		
Current assets		
Cash	93	233
Trade and other receivables (Note 5)	26	76
Inventory	-	71
Prepaid expenses and deposits	24	35
	143	415
Non-current assets		
Value-added tax receivable (Note 5)	-	843
Equipment (Note 6)	6	272
Mineral property under development (Notes 1 and 7)	-	22,149
Total assets	149	23,679
Liabilities		
Current liabilities		
Accounts payables and accrued liabilities (Note 8)	450	2,404
Due to related parties (Note 9)	44	62
Settlement liabilities	248	312
Loans (Note 10)	-	539
Deferred revenue (Note 11)	-	3,056
Metals derivative liability (Note 12)	-	3,413
	742	9,786
Long-term liabilities		
Reclamation and closure cost obligations (Note 13)	-	758
Total liabilities	742	10,544
Shareholders' Equity		
Common shares (Note 14 (a))	59,625	59,360
Warrants (Note 14 (b))	1,533	813
Contributed surplus	6,671	5,845
Deficit	(70,348)	(54,519)
Accumulated other comprehensive income	1,926	1,636
Total equity	(593)	13,135
Total liabilities and equity	149	23,679

Nature of operations and going concern (Note 1)

Subsequent events (Note 17)

Approved and authorized for issue by the Board of Directors on November 27, 2019

signed "Gordon Ellis"

Director

signed "Mario Stifano"

Director

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

Lupaka Gold Corp.

Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the three and nine months ended September 30, 2019 and 2018

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Operating expenses				
Exploration				
Project administration	-	(2)	-	(257)
Camp, community relations and related costs, net of recoveries	-	3	-	49
	-	1	-	(208)
General and administration				
Salaries and benefits	52	165	395	573
Professional and regulatory fees	42	136	87	214
Shareholder and investor relations	2	33	36	113
Office and general	6	17	42	82
Travel	2	11	7	33
	104	362	567	1,015
Operating loss	104	363	567	807
Write-off of IMC (Note 1)	15,209	-	15,209	-
Financing expenses (Note 16)	15	181	337	869
Gain on metals derivative liability (Note 12)	-	(1,113)	(284)	(2,033)
Interest income	1	-	-	-
Loss on sale of marketable securities (Note 4)	-	6	-	836
Gain on sale of equipment	-	-	-	(9)
Net loss (earnings) for the period	15,329	(563)	15,829	470
Other comprehensive loss (income)				
Change in fair value of securities	-	-	-	(275)
Currency translation adjustment on foreign operations	(933)	217	(290)	(264)
Comprehensive loss (income) for the period	14,396	(346)	15,539	(69)
Weighted average number of shares outstanding, basic and diluted				
Basic	148,509,368	121,909,317	141,626,348	120,858,251
Diluted		126,294,276		120,828,251
Loss (earnings) per share, basic and diluted	\$0.10	\$0.00	\$0.11	(\$0.00)

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

Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2019 and 2018

(presented in Thousands of Canadian Dollars)

	Nine months ended September 30	
	2019	2018
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(15,829)	(470)
Adjustment for items not affecting cash:		
Write-off of IMC (Note 1)	15,209	–
Unrealized foreign exchange (Note 16)	–	(168)
Finance expense (loan accretion) (Note 16)	1	325
Share-based compensation expense (Note 14)	124	196
Gain on metals derivative liability (Note 12)	(284)	(2,033)
Finance expense (Note 16)	328	630
Loss on marketable securities (Note 4)	–	836
	(451)	(684)
Changes in non-cash working capital		
Trade and other receivables	1	(817)
Prepaid expenses and deposits	11	208
Inventory	3	(72)
Accounts payables and accrued liabilities	172	(577)
Settlement liabilities	(41)	–
Due to/from related parties (Note 9)	(18)	(224)
Net cash from (used in) operating activities	(323)	(2,166)
Cash flows from (used in) investing activities		
Mineral property costs	(447)	(5,452)
Proceeds on sale of marketable securities	–	3,395
Purchase of equipment	–	(200)
Net cash from (used in) investing activities	(447)	(2,257)
Cash flows from financing activities		
Proceeds from private placement, net (Note 14)	636	–
PLI Financing (Note 11)	–	3,148
Exercises of warrants	–	414
Exercises of options	–	32
Repayment of loans (Note 10)	–	(360)
Net cash from financing activities	636	3,234
Net increase (decrease) in cash	(134)	(1,189)
Cash- beginning of period	233	1,656
Effect of foreign exchange rate changes on cash	(6)	141
Cash - end of period	93	608

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Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited) For the three and nine months ended September 30, 2019 and 2018

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

	Nine months ended September 30			
	2019		2018	
	Number	\$	Number	\$
Common shares (Note 14 (a))				
Balance – beginning of period	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 period	148,509,368	59,625	122,009,860	59,360
Share purchase warrants (Note 14 (b))				
Balance – beginning of period		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		(656)		(430)
Share purchase warrants canceled		–		(184)
Agent's warrants issued pursuant to PLI Financing (Note 11)		–		19
Balance – end of period		1,533		819
Contributed surplus				
Balance – beginning of period		5,845		4,802
Share-based compensation		170		331
Share purchase warrants canceled		–		184
Share purchase warrants expired		656		430
Stock options exercised		–		(22)
Balance – end of period		6,671		5,725
Deficit				
Balance – beginning of period		(54,519)		(54,834)
Net loss for the period		(15,829)		(470)
Balance – end of period		(70,348)		(55,304)
Accumulated other comprehensive income				
Balance – beginning of period		1,636		1,181
Change in fair value of securities		–		275
Currency translation adjustment on foreign operations		290		264
Balance – end of period		1,926		1,720
Total shareholders' equity		(593)		12,320

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

Lupaka Gold Corp.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
Nine months ended September 30, 2019 and 2018

(presented in Canadian Dollars)

1 Nature of operations and going concern

Lupaka Gold Corp. (“Lupaka”) was incorporated in Canada on November 3, 2000 under the legislation of the Province of British Columbia, and is in the business of 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”.

Write-off of Invicta Mining Corp. and the Invicta Gold Project

PLI Financing Agreement, Notice of Default and Early Termination

By agreement dated June 30, 2017 and amended August 2, 2017, the Company executed the PLI Financing Agreement with PLI Huara Holdings LP (“PLI”) to fund the completion of development and initiate production at its Invicta Gold Project (“Invicta”) owned by Invicta Mining Corp. (“IMC”). Pursuant to the PLI Financing Agreement the Company received a net of US\$6,100,000. PLI is an investment vehicle formerly controlled by Pandion Mine Finance, LLC (“Pandion”), which sold PLI to Lonely Mountain Resources S.A.C. (“Lonely Mountain”) in July 2019.

On July 1 2019, the Company received notice that Pandion had sold their interest in PLI, the vehicle that holds the Company’s Invicta Project financing debt, to Lonely Mountain.

On July 2, 2019, the Company received a formal Notice of Acceleration (“Acceleration Notice”) regarding the PLI Financing Agreement, from PLI. 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 has requested immediate payment of US\$15,581,654.

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 continues and/or Paran-controlled access is in place today, resulting in the Company’s loss of its ownership of IMC and the Invicta Gold Project. In this respect, the Company reserves all of its rights, including pursuing claims against the Republic of Peru under the Canada-Peru Free Trade Agreement.

This illegal road blockade, which commenced in October 2018 and continues to date, prevents the Company, all employees, contractors, and local community workers, from accessing the Invicta site and as a result all project-related development and operating activities were suspended in October 2018.

Additionally, Lupaka expressly 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. In this regard, the Company was advised in October 2019 that PLI had seized all of the ownership shares of IMC, effective August 27, 2019.

Lupaka continues to consider all actions available to it in response to PLI’s Acceleration Notice, foreclosure actions and the Company’s resulting write-off of IMC and Invicta. See also Note 17.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

Nine months ended September 30, 2019 and 2018

(presented in Canadian Dollars)

Going Concern

These unaudited condensed consolidated interim 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 September 30, 2019, the Company has a working capital deficit of \$599,000 and negative cash flow from operating activities of \$323,000 for the nine months ended September 30, 2019.

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 is no certainty that sufficient financing can be obtained in the future.

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.

2 Basis of preparation

The principal accounting policies applied in the preparation of these unaudited condensed 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 for the nine months ended September 30, 2018 have been changed as a result of a reclassification of such figures.

2.2 Statement of compliance

These unaudited condensed consolidated interim financial statements (“consolidated financial statements”) have been prepared in accordance with IAS 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”). As such, these interim financial statements do not include all of the information required by IFRS for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018, in addition to any new accounting policies applicable for the period ended September 30, 2019.

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

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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
- 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.

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.

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.

Impairment of mineral property under development – the carrying value of the Company’s mineral property under development is reviewed by management at each reporting period, or whenever events or circumstances indicate that the carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount.

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,

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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, AES and Greenhydro is the United States Dollars (“USD”).

3.2 New standards and interpretations

IFRS 16 - Leases – Effective January 1, 2019 the Company has adopted IFRS 16 Leases (“IFRS 16”) which replaces IAS 17 Leases (“IAS 17”) and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases that is currently required by IAS 17 and, instead, introduces a single lessee accounting model. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Company has determined that it does not have any contracts that fall under the scope of IFRS 16 that would require recognition in the current period. Therefore, there is no impact on the Condensed Interim Consolidated Financial Statements for the current or comparative periods. The adoption of IFRS 16 also has no impact on basic and diluted loss per share or opening deficit.

4 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 the six months ended June 30, 2018, the Company sold its remaining GOLD Shares, for \$3,399,000, realizing a total loss of \$830,000.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

Nine months ended September 30, 2019 and 2018

(presented in Canadian Dollars)

5 Trade and Other Receivables

- a) Trade receivables - consist of goods and services taxes due from the Governments of Canada and Peru. The Company anticipates full recovery of its current trade and other receivables within one year;
- b) Due from IMC – with the Company’s loss of its ownership of IMC (see Note 1), net intercompany advances previously made by Lupaka or its corporate assignees to IMC total approximately US\$11 Million. 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 September 30, 2019 recorded carrying value for accounting purposes for the IMC receivable is \$Nil; and
- c) Non-current value-added tax receivable (“VAT”) - arises from the Government of Peru and relates to payments for the Company’s development activities. The actual timing of receipt is uncertain as VAT is refundable only upon commercial operations occurring.

6 Equipment

<i>In thousands of dollars</i>	Vehicles and field equipment	Office equip 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)
Write-off of IMC and its net assets	(198)	(190)	(388)
Balance as at September 30, 2019	99	82	181
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)
Write-off of IMC and its net assets	(146)	(18)	(164)
Balance as at September 30, 2019	97	78	175
Carrying amounts			
Balance as at December 31, 2018	77	195	272
Balance as at September 30, 2019	2	4	6

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(presented in Canadian Dollars)

During the nine months ended September 30, 2019 and prior to the write-off of IMC, \$34,000 (2018 – \$29,000) of depreciation was capitalized to the Invicta mineral property under development.

7 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:

<i>In thousands of dollars</i>	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)
Adjustment for write-off of IMC and its net assets ⁽¹⁾	(12,386)	(233)	(6,186)	(1,642)	(1,903)	(22,350)
Balance, September 30, 2019	-	-	-	-	-	-

⁽¹⁾ – with the Company's loss of its ownership of IMC and all of 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 1.

8 Accounts payable and settlement liabilities

During February 2019 the Company reached agreements to restructure a portion of current accounts payable and settlement liabilities into long-term notes, conditionally payable on achieving future production thresholds at Invicta. As a result of the write-off of IMC and its net assets, as at September 30, 2019, \$126,000 and \$182,000 have been reclassified from long-term accounts payable and long-term settlement liabilities, respectively, to (current) accounts payable and accrued liabilities.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) Nine months ended September 30, 2019 and 2018

(presented in Canadian Dollars)

9 Related party transactions

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

(a) Related party expenditures

During the nine months ended September 30, 2019, the Company:

- accrued \$16,000 (net of tax) for consulting and advisory services to Havilah Holdings Inc. (“Havilah”), a company wholly-owned by Geoff Courtnall; and
- 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 14). 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 is shown below:

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
<i>In thousands of dollars</i>	\$	\$	\$	\$
Salaries, fees and benefits	21	177	382	477
Share-based compensation	36	69	151	273
Total	57	246	533	750

Of the \$382,000 included in salaries and benefits during the nine months ended September 30, 2019, approximately \$209,000 in remuneration was for severance paid in SFD Transaction Units and common shares. See Note 14.

(c) Due to/from 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 September 30, 2019, \$44,000 (net of tax) was payable to an officer, director and a company controlled by a related party for services rendered and \$275,000 was payable to a former CEO of the Company pursuant to a March 2018 settlement agreement between the parties and included in Settlement Liabilities. In February 2019, the Company restructured the March 2018 settlement agreement to a cash payment of \$27,500 paid in April 2019 and a \$247,500 note, conditionally payable based on achieving future production thresholds at the Invicta Gold Project.

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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 14.

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.

Following is a continuity schedule for BL2:

<i>In thousands of dollars</i>	Liability \$
Balance, December 31, 2017	211
Loan accretion	88
<u>Loans repaid</u>	<u>(210)</u>
Balance, December 31, 2018	89
Loan accretion	1
<u>Loans repaid with Lupaka Units</u>	<u>(90)</u>
<u>Balance, September 30, 2019</u>	<u>–</u>

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.

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Pursuant to the closing of BL3, the Company issued share purchase warrants (“BL3 Warrants”) – see Note 14.

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 14.

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:

<i>In thousands of dollars</i>	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, September 30, 2019	–

11 Deferred revenue

By agreement dated June 30, 2017 and amended August 2, 2017, the Company executed the PLI Financing Agreement with PLI Huara Holdings LP (“PLI”) to fund the completion of development and initiate production at its Invicta Gold Project (“Invicta”). PLI is an investment vehicle formerly controlled by Pandion Mine Finance, LLC, which sold PLI to Lonely Mountain Resources S.A.C. (“Lonely Mountain”) in July 2019.

The gross proceeds received 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 – see Note 12.

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

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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.

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; 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 14 (b)).

Management has 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 nine months ended September 30, 2019 and year ended December 31, 2018:

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	CAD	USD	CAD	USD
<i>In thousands of dollars</i>	\$	\$	\$	\$
Balance, beginning of period	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, June 30, 2019	3,254	2,486		
Adjustment for write-off of IMC and its net assets	(3,254)	(2,486)		
Balance, end of period	—	—	3,056	2,240

For the nine months ended September 30, 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). With the Company's loss of its ownership of IMC and all of its assets and liabilities, the Company has adjusted the carrying value of its deferred revenue to \$Nil.

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12 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 provides 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 agreement, noting 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 (see Note 11).

Following are the continuity schedules for the Company's other metals derivative liability for the nine months ended September 30, 2019 and the year ended December 31, 2018:

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	CAD	USD	CAD	USD
<i>In thousands of dollars</i>	\$	\$	\$	\$
Balance, beginning of period	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, June 30, 2019	3,001	2,293		
Adjustment for write-off of IMC and its net assets	(3,001)	(2,293)		
Balance, end of period	–	–	3,413	2,502

For the nine months ended September 30, 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 Company has adjusted the carrying value of its metals derivative liability to \$Nil.

13 Reclamation and closure cost obligations

When the Company exhausts or abandons a mining property or an exploration site, it is required to undertake certain reclamation and closure procedures under the terms of the legislation enacted by the government of Peru. Consequently, the Company records a reclamation provision. However, as the Company no longer owns IMC and/or the Invicta Gold Project, the previous carrying value and obligations have been adjusted to Nil.

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14 Equity

a) Common shares

Authorized: unlimited with no par value.

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 convert \$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.

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 September 30, 2019:

Year of Expiry	Range of exercise prices \$	Outstanding and Exercisable		
		Number of warrants outstanding	Weighted average exercise price \$	Weighted average remaining contractual life (years)
2019	0.18 – 0.18	145,698	0.18	0.1
2020	0.23 – 0.26	2,122,787	0.23	0.6
2021	0.10	25,972,008	0.10	2.0
	0.10 – 0.26	28,240,493	0.11	1.8

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Following is a continuity schedule for the Company's warrants, for the nine months ended September 30, 2019 and year ended December 31, 2018:

	Nine months ended September 30, 2019		Year ended December 31, 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	(12,134,177)	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 period	28,240,493	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.

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 September 30, 2019, there were 2,000,000 May 2017 Warrants outstanding.

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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.

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.

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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

As at September 30, 2019, there were 145,698 Tranche 2 Agents' Warrants outstanding.

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.

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 September 30, 2019, there were 122,787 Tranche 3 Agents' Warrants outstanding.

March 2019 warrants

In conjunction with the March 2019 non-brokered private placement unit Offering and SFD Transaction (see Note 14), the Company issued a total of 25,649,508 transferable common share purchase warrants and 322,500 non-transferable common share warrants, each entitling the holder to purchase one common share, exercisable at \$0.10 for a period of thirty months from the date of the closing of the Offering.

The fair value of the March 2019 Warrants was estimated to be \$0.05 per warrant at the grant date using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price (\$)	0.10
Risk free interest rate (%)	1.66
Expected life (years)	1.9
Expected volatility (%)	112.4

As at September 30, 2019, there were 25,972,008 March 2019 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:

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- 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 nine months ended September 30, 2019 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:

	Nine months ended September 30, 2019		Year ended December 31, 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	(1,127,500)	0.13	(948,750)	0.14
Expired	–	–	(1,405,000)	0.27
Options outstanding – end of period	13,235,000	0.12	10,162,500	0.14
Options exercisable – end of period	9,197,500	0.14	7,502,500	0.14

The weighted average fair value of the share options granted in the nine months ended September 30, 2019 was estimated to be \$0.06 (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:

	Nine months ended September 30, 2019	Year ended December 31, 2018
Weighted average exercise price (\$)	0.06	0.17
Dividend yield	–	–
Risk free interest rate (%)	1.8	2.1
Expected life (years)	3.4	3.4
Pre-vest forfeiture rate (%)	10.2	10.8
Expected volatility (%)	124.0	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.

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Non-cash share-based compensation costs of \$169,000 have been recorded for the nine months ended September 30, 2019 (2018 – \$331,000), and allocated as follows:

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Salaries and benefits	28	48	113	177
Shareholder and investor relations	4	7	11	19
<u>Development costs (capitalized)</u>				
Project Administration	10	24	40	113
Community	2	6	5	22
Total share-based compensation	44	85	169	331

The following table summarizes information about share options outstanding and exercisable at September 30, 2019:

Year of Expiry	Range of exercise prices \$	Outstanding			Exercisable		
		Number of options outstanding	Weighted average exercise price \$	Weighted average remaining contractua l life (years)	Number of options exercisable	Weighted average exercise price \$	Weighted average remaining contractua l life (years)
2019	0.13	780,000	0.13	0.1	780,000	0.13	0.1
2020	0.06	1,440,000	0.06	1.2	1,440,000	0.06	1.2
2021	0.12 – 0.18	1,780,000	0.16	2.1	1,742,500	0.16	2.1
2022	0.15	1,910,000	0.15	3.1	1,910,000	0.15	3.1
2023	0.12 – 0.23	3,125,000	0.18	3.8	2,150,000	0.19	3.7
2024	0.05 – 0.10	4,200,000	0.06	4.9	1,175,000	0.06	4.8
	0.05 – 0.23	13,235,000	0.12	3.3	9,197,500	0.13	2.7

15 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:

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Loss (earnings)				
Canada	92	(691)	587	(270)
Peru	15,237	128	15,242	740
	15,329	(563)	15,829	470

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<i>In thousands of dollars</i>	September 30, 2019 \$	December 31, 2018 \$
Total assets		
Canada	127	105
Peru	22	23,574
	149	23,679

16 Financing expenses

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Financing expenses	–	141	328	631
Foreign exchange loss (gain)	15	17	–	(168)
Interest expense	–	17	8	81
Loan accretion	–	6	1	325
Total	15	181	337	869

17 Subsequent events

Notice of Indemnification and Reservation of Rights Letter from PLI

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. (the “PLI Letter”), which primarily demands 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 US\$15,957,086), and all other amounts outstanding under the PLI Financing Agreement are to be paid immediately on demand and that PLI hereby makes demand for payment of such amounts.

Response letter from the Company to the PLI Letter

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\$15,957,086 as of October 31, 2019 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.