Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Presented in Canadian Dollars)

May 1, 2017

Independent Auditor's Report

To the Shareholders of Lupaka Gold Corp.

We have audited the accompanying consolidated financial statements of Lupaka Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lupaka Gold Corp. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Lupaka Gold Corp.'s ability to continue as a going concern.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Lupaka Gold Corp.

Consolidated Statements of Financial Position
As at December 31, 2016 and 2015

(presented in thousands of Canadian Dollars)

	December 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash and cash equivalents	112	52
Value added tax receivables	18	20
Prepaid expenses and deposits	38	49
	168	121
Non-current assets		
Equipment (Note 4)	206	262
Mineral properties (Note 5)	28,673	29,067
Total assets	29,048	29,450
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,476	1,241
Due to related parties (Note 7)	667	696
	2,143	1,937
Long-term liabilities		
Provisions for reclamation	285	278
Loans (Note 6)	659	–
Total liabilities	3,087	2,215
Equity		
Common shares (Note 8 (a))	58,419	57,791
Warrants (Note 8 (b))	1,366	815
Contributed surplus	4,012	3,869
Deficit	(39,951)	(37,730)
Accumulated other comprehensive income	2,115	2,490
Total equity	25,961	27,235
Total liabilities and equity	29,048	29,450

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 5 and 13)
Subsequent events (Notes 5, 6 and 8)

Approved and authorized for issue by the Board on April 28, 2017.

signed "Gordon Ellis"	*signed "Stephen Silbernagel"*
Director	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, 2016 and 2015

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

	2016 $	2015 $
Operating expenses		
Exploration		
Project administration	849	869
Camp, community relations and related costs, net of recoveries	656	1,320
	1,505	2,189
General and administration		
Salaries and benefits	259	1,081
Shareholder and investor relations	35	177
Professional and regulatory fees	190	165
Office and general	103	124
Travel	19	16
	606	1,563
Operating loss	2,111	3,752
Accretion expense	68	–
Interest expense	45	–
Finance income	–	(5)
Foreign exchange (gain) loss	(3)	53
Loss for the year	2,221	3,800
Weighted average number of shares outstanding, basic and diluted	112,105,944	95,508,095
Loss per share, basic and diluted	$0.02	$0.04

Consolidated statements of comprehensive loss	2016 $	2015 $
Loss for the year	2,221	3,800
Items that may be subsequently reclassified to profit or loss		
Currency translation adjustment on foreign operations	375	(1,088)
Comprehensive loss	2,596	2,712

Lupaka Gold Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(presented in Thousands of Canadian Dollars)

	2016 $	2015 $
Cash flows used in operating activities		
Loss for the year	(2,221)	(3,800)
Adjustment for items not affecting cash:		
Depreciation (Note 4)	52	118
Accretion	68	–
Share-based compensation (Note 7)	168	118
Provisions for reclamation	7	(102)
Loss (gain) on sale of equipment	(17)	9
	(1,943)	(3,657)
Changes in non-cash working capital		
Trade and other receivables	2	23
Prepaid expenses and deposits	11	70
Trade payables and accrued liabilities	234	82
Due to related parties (Note 6)	(29)	696
Net cash used in operating activities	(1,725)	(2,786)
Cash flows from (used in) investing activities		
Proceeds on sale of equipment	20	–
Purchase of equipment	(3)	(62)
Net cash from investing activities	17	(62)
Cash flows from financing activities		
Proceeds from private placement, net (Note 7)	400	705
Proceeds from loan, net (Note 6)	726	–
Deposits held (Note 6)	190	–
Exercises of warrants	391	–
Exercises of options	39	–
Net cash from financing activities	1,746	705
Net increase (decrease) in cash and cash equivalents	38	(2,143)
Cash and cash equivalents - beginning of year	52	2,239
Effect of foreign exchange rate changes on cash and cash equivalents	22	(44)
Cash and cash equivalents - end of year	112	52

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015

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

	2016		2015	
	Number		Number	
Common shares (Note 7 (a))				
Balance – beginning of year	103,563,251	57,791	92,545,110	57,360
Issued pursuant to private placements	8,390,000	99	11,018,141	431
Share purchase warrants exercised	3,146,429	465	–	–
Stock options exercised	375,000	64	–	–
Balance – end of year	115,474,680	58,419	103,563,251	57,791
Share purchase warrants (Note 7 (b))				
Balance – beginning of year		815		541
Issued pursuant to a private placement		301		274
Issued pursuant to a loan (Note 6)		325		
Share purchase warrants exercised		(75)		–
Balance – end of year		1,366		815
Contributed surplus (Note 7 (c))				
Balance – beginning of year		3,869		3,751
Share-based compensation		168		118
Stock options exercised		(25)		–
Balance – end of year		4,012		3,869
Deficit				
Balance – beginning of year		(37,730)		(33,930)
Loss for the year		(2,221)		(3,800)
Balance – end of year		(39,951)		(37,730)
Accumulated other comprehensive income				
Balance – beginning of year		2,490		1,402
Currency translation adjustment on foreign operations		(375)		1,088
Balance – end of year		2,115		2,490
Total equity		25,961		27,235

1 Nature of operations and going concern

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

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

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

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

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

If the going concern assumption was not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used, and such adjustments would be material. Several adverse conditions cast significant doubt upon the validity of the going concern assumption. As at December 31, 2016, the Company has a working capital deficit of $1,975,000, an accumulated deficit of $39,951,000, and negative cash flow from operating activities of $1,725,000.

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

In addition, if the Company is to develop its Invicta Gold Project, it will be necessary to obtain additional project-related financing – see Note 5.

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

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 Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Company's Board of Directors on April 28, 2017.

2.2 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.3 Basis of consolidation

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

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

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

2.4 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, apart from those involving estimates, that management made in the process of applying the Company's key accounting policies and that have the most significant effect on the amounts recognized in the 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, obtain additional financing as required, and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

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

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

Impairment of mineral properties – the carrying value of the Company's mineral properties is reviewed by management at each reporting period, or whenever events or circumstances indicate that 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.

Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs - Management has determined that exploratory mineral properties, exploration, evaluation, development and related costs incurred which are capitalized as mineral properties have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit which may include geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

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

No loss provision regarding possible additional tax assessments – the decision that no loss provision be made regarding the challenge to the deductibility of certain property write-offs and foreign exchange losses by SUNAT, the Peruvian tax authority, is based on the Company's opinion that the deductions are legitimate and can be successfully defended in the appeals process available under Peruvian law. See Note 13.

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

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

2.5 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, AES and Greenhydro is the Peruvian Nuevo Sol.

(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.
(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 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with maturities of three months or less from date of purchase.

3.3 Trade and other receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost, less any provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due, according to the original terms of the receivables.

3.4 Trade and other payables

Trade and other payables, including amounts due to related parties, are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are classified as other financial liabilities measured initially at fair value and subsequently measured at amortized cost.

3.5 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of equipment are as follows:

Office equipment and furniture:	2 to 10 years
Vehicles and field equipment:	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within the statement of loss and comprehensive loss.

3.6 Mineral properties

Mineral properties are stated at cost less accumulated amortization and accumulated impairment charges, if any. The costs associated with mineral properties include direct costs and acquired interests in production, development and exploration stage properties. Mineral properties also include 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. When mineral properties are brought into production, they will be amortized on a unit-of-production basis. Upon sale or abandonment of mineral properties, the cost and related accumulated depreciation are written off and any gains or losses thereon are included in income or loss for the year.

3.7 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 properties.

3.8 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, 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.

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.

3.9 Financial instruments

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets and liabilities are measured at fair value plus or less transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for those financial assets and liabilities classified as fair value through profit or loss, for which the transaction costs are expensed.

Financial assets and liabilities
The Company’s financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, and loans.

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair-value-through-profit-and-loss”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities”. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. Financial liabilities are classified as either financial liabilities at “fair-value-through-profit and loss” or “other financial liabilities”. Financial liabilities are classified as “fair-value-through-profit and loss” when the financial liability is either ‘held for trading’ or it is designated as “fair-value-through-profit and loss”.

3.10 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.

3.11 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.

3.12 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.

3.13 Loss per share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. The diluted loss 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 loss 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, 2016, 36,868,355 (December 31, 2015 – 27,298,534) 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.

3.14 Provision for reclamation

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 properties 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 provision for reclamation and closure to reflect the current best estimate. The provision for reclamation 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 properties which arises at the time of establishing the provision.

3.15 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.

3.16 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 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.

3.17 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 mineral properties. The Company’s geographical segments are determined by the location of the Company’s assets and liabilities.

3.18 New standards and interpretations

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning January 1, 2015. Pronouncements that are not applicable to the Company have been excluded from this note.

The following pronouncement has been issued but is not yet effective:

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

4 Equipment

In thousands of dollars	Vehicles and field equipment $	Office equip and furniture $	Total $
Cost			
Balance as at December 31, 2014	698	98	796
Additions	55	7	62
Disposal of equipment	(146)	–	(146)
Balance as at December 31, 2015	607	105	712
Additions	–	3	3
Disposal of equipment	(34)	–	(34)
Foreign exchange	(9)	(2)	(11)
Balance as at December 31, 2016	564	106	670
Accumulated depreciation			
Balance as at December 31, 2014	413	56	469
Depreciation	90	28	118
Disposal of equipment	(137)	–	(137)
Balance as at December 31, 2015	366	84	450
Depreciation	41	11	52
Disposal of equipment	(31)	–	(31)
Foreign exchange	(5)	(2)	(7)
Balance as at December 31, 2016	371	93	464
Carrying amounts			
Balance as at December 31, 2015	241	21	262
Balance as at December 31, 2016	193	13	206

During the year ended December 31, 2016, $47,000 (2015 – $113,000) of depreciation was included in project administration and $5,000 (2015 – $5,000) of depreciation was included in office and general.

5 Mineral properties

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

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

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

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

The Option Agreement required the Company to pay Barrick US$200,000 for the mining rights, plus a 1% Net Smelter Royalty ("NSR") capped at US$800,000. The Option Agreement also called for advance annual royalty payments of US$100,000, commencing on the date of exercising the option and every anniversary thereafter. To December 31, 2016, a total of US$700,000 has been paid to Barrick, US$100,000 has been paid to FN and US$200,000 owed to FN is accrued, for the mining rights and advance royalties.

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

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

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

Receipt of the proceeds from both tranches is dependent upon the Company's completion of a number of closing conditions, which are in the process of being completed.

Each tranche will have a grace period of 15 months after which the Company will deliver to PLI a total of 19,530 ounces of gold for both tranches over the following 45 months. The Company will receive an amount per ounce of gold equal to the market price at the time, less a fixed discount. After the tranches have been repaid, the Company will have no further obligations under the Agreement. During the term of the Agreement, PLI will also share in a portion of the upside on any increase in metal prices.

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

The carrying value of the Invicta mineral property as at December 31, 2016 was $11,132,000 ($11,284,000 – December 31, 2015). The change in carrying value of $152,000 for the year ended December 31, 2016 is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2015 to December 31, 2016.

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

The carrying value of Crucero as at December 31, 2016 is $17,541,000 ($17,783,000 – December 31, 2015). The change in carrying value of $242,000 for the year ended December 31, 2016 is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2015 to December 31, 2016.

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

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

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

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

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

6 Loans

Bridge Loan 1

On June 30, 2016 (the "Bridge Loan 1 Closing Date"), the Company completed a bridge loan financing (the "Bridge Loan 1") for gross proceeds of $750,000 with a group of third-party individuals (83%) and Insiders of the Company (17%). The Company paid $8,100 cash in finders' fees in connection with third-party investors and $16,300 in other costs.

The Bridge Loan 1 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually, with the first interest payment due on December 31, 2016 and each 6 months thereafter. The Bridge Loan 1 and accrued and unpaid interest is payable in full on or before the date that is two years after the Closing Date. Pursuant to the closing of Bridge Loan 1, the Company also issued share purchase warrants ("Loan Warrants") as additional consideration for the loan – see Note 8.

In January 2017, the Company entered into Shares For Debt settlement agreements covering the Bridge Loan 1 interest payable as at December 31, 2016 with 6 creditors of the Company as well as the spouse of the Company's CEO, the personal holding company of the Company's CFO and a director of the Company, the latter three parties each being considered a related party, collectively, the "Creditors"), whereby the Company issued Common Shares at a price of $0.15 per share. Pursuant to the Shares For Debt Agreements, $45,000 of debt was settled and a total of 300,000 Common Shares were issued. The Common Shares issued in connection with the Shares for Debt transaction are subject to a statutory hold period of four months plus one day.

The recorded value of the Bridge Loan 1 balance as at December 31, 2016 has been calculated as follows:

In thousands of dollars	Liability $	Equity $
Balance, January 1, 2016	–	–
Bridge Loan 1 proceeds	750	–
Fair value of Bridge Loan 1 Warrants issued	(336)	336
Bridge Loan 1 issue costs allocated	(13)	(11)
Accretion	68	–
Balance, December 31, 2016	469	325

Bridge Loan 2

Subsequent to the year-end, the Company completed a bridge loan financing (the "Bridge Loan 2") for gross proceeds of $300,000 with a group of third-party individuals (70%) and Insiders of the Company (30%). The Company paid $Nil cash in finders' fees in connection with third-party investors, with the proceeds being used for general working capital purposes. Bridge Loan 2 closed with an effective date of January 4, 2017 ("Bridge Loan 2 Closing Date").

As at December 31, 2016, $190,000 of the Bridge Loan 2 proceeds were received and are included in the Company's balance sheet as at that date.

The Bridge Loan 2 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually, with the first interest payment due on June 30, 2017 and each 6 months thereafter. The Bridge Loan 2 and accrued and unpaid interest is payable in full on or before the date that is two years after the Closing Date, and pursuant to the closing of the Loan subsequent to the Company's year-end, the Company issued share purchase warrants ("Bridge Loan 2 Warrants") – see Note 8.

7 Related party transactions

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

(a) Related party expenditures

During the years ended December 31, 2016 and 2015, the Company had related party transactions with K-Rok Minerals Inc. ("K-Rok", a >10% shareholder of the Company), which is owned 60% by ABE Industries Inc. ("ABE"), 35% by Havilah Holdings Inc. ("Havilah") and 5% by another individual. ABE is wholly-owned by Gordann Consultants Ltd., a company in which Gordon Ellis owns a 51% interest and his wife, Margaret Ellis, owns a 49% interest. Gordon Ellis is the Executive Chairman of the Company and a director, and through his spousal and corporate ownerships is a greater than 10% shareholder of the Company. Havilah is a company wholly-owned by Geoff Courtnall.

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

Nature of Transaction *In thousands of dollars*	Related Party	**2016** **$**	**2015** **$**
Shareholder and investor relations	S	–	60
Project administration	S, D	–	38
Salaries and benefits	S, D	–	11
		–	109

(b) Key management compensation

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

In thousands of dollars	**2016** **$**	**2015** **$**
Salaries and benefits	233	501
Termination payment	–	644
Share-based compensation	107	82
Total key management compensation	340	1,227

(c) Due to related parties

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

As at December 31, 2016:

i) $12,000 was payable to an officer, director and a company controlled by a related party for unpaid services rendered, and

ii) $644,000 was payable to the former President and C.E.O., pursuant to the October 2015 termination of his employment from the Company.

iii) $11,000 was payable to an officer and two directors of the Company for interest accrued and payable relating to Bridge Loan 1 interest payable.

8 Equity

a) Common shares

Authorized: unlimited with no par value.

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

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

On December 31, 2015, the Company closed a non-brokered private placement ("the December 2015 Placement") and issued 2,200,000 Units priced at $0.05 per Unit, for gross proceeds of $110,000. For the December 2015 Placement, each Unit consists of one common share and one transferable common share purchase warrant (the “Warrant”). Each Warrant entitles the holder to purchase one additional common share, exercisable at $0.10 for a period of thirty-six months from closing. As part of the December 2015 Placement, certain directors and officers of the Company acquired a total of 1,600,000 Units.

Proceeds and related issue costs of the December 2015 Placement have been allocated between share capital and warrants based on the residual value of the underlying common shares and Warrants. For purposes of this allocation, the Company allocated $0.034 of the issue price of each common share and $0.016 of the issue price for the issue of each Warrant, calculated using the Black-Scholes model. The assumptions used to value the Warrants include an expected life of 1.5 years, 133% expected annual volatility, a risk-free rate of 3.8% and expected dividends of $Nil. There were no finders’ fees in connection with the December 2015 Placement. Share issue costs totalled $1,400.

On August 24, 2015, the Company closed the first tranche of a non-brokered private placement (“the Fall 2015 Placement”) and issued 6,460,854 Units priced at $0.07 per Unit, for gross proceeds of $452,260. On September 25, 2015, the Company closed a second and final tranche of the Fall 2015 Placement by issuing 2,146,430 Units at a price of $0.07 for gross proceeds of $150,250. For both tranches of the Fall 2015 Placement, each Unit consists of one common share and one transferable common share purchase warrant (the “Warrant”). Each Warrant entitles the holder to purchase one additional common share, exercisable at $0.15 for a period of thirty-six months from closing. As part of the Fall 2015 Placement, certain directors and officers of the Company acquired a total of 1,402,999 Units.

Proceeds and related issue costs of the Fall 2015 Placement have been allocated between share capital and warrants based on the residual value of the underlying common shares and Warrants. For purposes of this allocation, the Company allocated $0.042 of the issue price of each common share and $0.028 of the issue price for the issue of each Warrant, calculated using the Black-Scholes model. The assumptions used to value the Warrants include an expected life of 1.5 years, 128% expected annual volatility, a risk-free rate of 3.8% and expected dividends of $Nil. Finders’ fees to arm’s-length parties in connection with the Fall 2015 Placement consists of 210,857 Common Shares. Other share issue costs totalled approximately $5,900.

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

(presented in Canadian Dollars)

b) Share purchase warrants

The Company now has the following share purchase warrants outstanding:

	2016		2015	
	Number of share purchase warrants	**Weighted average exercise price $**	**Number of share purchase warrants**	**Weighted average exercise price $**
Warrants outstanding – beginning of year	19,179,784	0.34	8,985,000	0.41
Placement Warrants issued	8,390,000	0.10	10,807,284	0.14
Bridge Loan 1 Warrants issued	3,750,000	0.20	–	–
Warrants exercised	(3,146,429)	0.12	–	–
Warrants expired	–	–	(612,500)	1.87
Warrants outstanding – end of year	28,173,355	0.19	19,179,784	0.21

At any time following the date that is four months after the date of issue, the Warrants are subject to an acceleration clause in the event the closing price of Lupaka Gold's common shares is greater than $0.30 for a period of 20 consecutive trading days. Lupaka Gold may accelerate the expiry date of the warrants by giving notice to the holders thereof through the issuance of a press release. In such case, the Warrants will expire on the 30th day after the date on which such notice is given.

Bridge Loan 1 Warrants
Pursuant to the closing of Bridge Loan 1, the Company issued to the Lenders an aggregate of 3,750,000 non-transferrable warrants (the "Bridge Loan 1 Warrants"). Each Loan Warrant, which expires June 30, 2018, entitles the holder to purchase 1 common share of the Company at a price of C$0.20 per share.

Bridge Loan 2 Warrants
Pursuant to the closing of Bridge Loan 2 subsequent to the Company's year-end, the Company issued to the Lenders an aggregate of 1,500,000 non-transferrable warrants (the "Bridge Loan 2 Warrants"), such number being equal to the amount of the Loan divided by $0.20. Each Bridge Loan 2 Warrant, which expires January 4, 2019, entitles the holder to purchase 1 common share of the Company at a price of C$0.20 per share.

Any shares issued pursuant to the exercise of the Bridge Loan 2 Warrants will be subject to a statutory hold period under Canadian securities laws of 4 months and 1 day after the Bridge Loan 2 Closing Date.

(presented in Canadian Dollars)

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2016:

		Outstanding and Exercisable		
Year of Expiry	Range of exercise prices $	Number of options outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)
2017	0.30	8,372,500	0.30	0.6
2018	0.10 – 0.20	11,810,855	0.16	1.6
2019	0.10	7,990,000	0.10	2.1
	0.10 – 0.30	28,173,355	0.19	1.5

c) Share options

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

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

Vesting terms are determined for each grant by the Company’s Board of Directors. The options granted in the year ended December 31, 2016 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:

	2016		2015	
	Number of share options	Weighted average exercise price $	Number of share options	Weighted average exercise price $
Options outstanding – beginning of period	8,118,750	0.34	9,198,000	0.48
Granted	2,435,000	0.16	2,790,000	0.06
Forfeited	(345,000)	0.16	(958,000)	0.33
Exercised	(375,000)	0.10	–	–
Expired	(1,138,750)	1.33	(2,911,250)	0.51
Options outstanding – end of period	8,695,000	0.18	8,118,750	0.34
Options exercisable – end of period	6,261,250	0.19	5,668,750	0.46

The weighted average fair value of the share options granted in the year was estimated to be $0.12 (2015 – $0. 04) per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	2016	**2015**
Weighted average exercise price ($)	0.12	0.06
Dividend yield	–	–
Risk free interest rate (%)	0.75	0.73
Expected life (years)	3.3	3.5
Pre-vest forfeiture rate (%)	5.0	5.0
Expected volatility (%)	131.0	113.0

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 $168,000 have been recorded for the year ended December 31, 2016 (December 31, 2015 – $118,000), and allocated as follows:

In thousands of dollars	**2016** **$**	**2015** **$**
Salaries and benefits	120	78
Shareholder and investor relations	19	10
Project administration	20	27
Camp and related	9	3
Total share-based compensation	168	118

The following table summarizes information about share options outstanding and exercisable at December 31, 2016:

		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)**
2017	0.45	935,000	0.45	0.9	935,000	0.45	1.9
2018	0.24 – 0.40	1,610,000	0.27	1.7	1,610,000	0.27	1.7
2019	0.13	1,285,000	0.13	2.8	1,285,000	0.13	2.8
2020	0.06	2,430,000	0.06	3.9	1,822,500	0.06	3.9
2021	0.16	2,435,000	0.16	4.9	608,750	0.16	4.9
	0.06 – 0.45	8,695,000	0.18	3.3	6,261,250	0.20	2.8

9 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2016 and 2015 are as follows:

In thousands of dollars	**2016 $**	**2015 $**
Deferred income tax assets:		
Non-capital loss carry-forwards, net	1,643	2,042
Property and equipment	9,981	7,754
Net capital loss carry-forwards	395	395
Share issuance costs	19	16
Reclamation obligation	97	84
Other	41	41
Deferred income tax assets, net	12,176	10,332
Unrecognized tax assets	(12,176)	(10,332)
	–	–

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	**2016 $**	**2015 $**
Loss for the year before income tax expense (recovery)	(2,221)	(3,800)
Average statutory rate	26.00%	26.00%
Expected income tax recovery at statutory rates	(577)	(988)
Non-deductible expenses	68	93
Effect of different tax rates in foreign jurisdictions	(27)	(116)
Difference in prior year tax returns	(262)	274
Expiration of tax losses	22	–
Difference in future and current tax rates	(1,249)	85
Impact of difference in functional and tax currencies	126	426
Amounts charged to equity	55	66
Unrecognized tax assets	1,844	160
Income tax expense	–	–

b) Losses carried forward

The Company has non-capital losses in Canada and Peru, for which deduction against future taxable income is uncertain, of approximately $11.4 million (2015 - $11.3 million) and $1.9 million (2015 - $3.5 million), respectively. The Canadian losses, if not utilized, will expire over 2029 through 2036, while the Peruvian losses, if not utilized, will expire over 2017 through 2019. 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.

10 Segmented information

The Company operates in one segment, being mineral exploration and development. Losses for the year and total assets by geographic location are as follows:

In thousands of dollars	**2016** **$**	**2015** **$**
Loss		
Canada	716	1,611
Peru	1,505	2,189
	2,221	3,800

In thousands of dollars	**December 31, 2016** **$**	**December 31, 2015** **$**
Total assets		
Canada	77	69
Peru	28,971	29,381
	29,048	29,450

11 Capital management

The Company's objective when managing capital structure is to maintain liquidity in order to ensure the Company's strategic acquisition, exploration and business development objectives are met.

In the management of capital, the Company defines capital that it manages as the aggregate of its debt and equity (2016 – $26,620,000; 2015 – $27,235,000).

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 and 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, 2016, the Company is seeking opportunities to obtain funding to pay liabilities as they come due and to finance the development of Invicta (see Notes 1 and 5), and is not subject to externally-imposed capital requirements.

12 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 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, 2016 and 2015, the Company's undiscounted contractual obligations and their maturity dates were as follows:

In thousands of dollars	**December 31, 2016 $**	**December 31, 2015 $**
Trade and other payables (within 12 months)	2,143	1,937
Bridge Loan 1	750	–
Bridge Loan 2 proceeds received	190	–
Total	3,083	1,937

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.

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

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

In thousands of US dollars	**December 31, 2016 $**	**December 31, 2015 $**
Cash and cash equivalents	36	5
Current assets	5	4
Current liabilities	(622)	(624)

Based on the above net exposure as at December 31, 2016, and assuming that all other variables remain constant, a 10% appreciation (depreciation) of the Canadian Dollar against the US Dollar would result in an increase or decrease of approximately +/- $78,000 (2015 – $85,000) 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 and cash equivalents, trade and other receivables and trade and other payables approximate carrying value because of their short-term nature.

At December 31, 2016 and 2015, there were no financial assets or liabilities measured and recognized in the consolidated statement of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy above.

13 Commitment and contingency

Office lease
The Company's remaining lease payments for its Vancouver, Canada office lease, which expires September 30, 2017, total $26,000 as at December 31, 2016.

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

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

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

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

As at December 31, 2016, no loss provision has been made for the above-noted remaining SUNAT assessment(s) in these consolidated financial statements as neither the probability or the amount of the contingent amount can be reasonably estimated.