Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
(Presented in Canadian Dollars)

April 25, 2016

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, 2015 and December 31, 2014 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2015 and December 31, 2014 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, 2015 and 2014

(presented in thousands of Canadian Dollars)

	December 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	52	2,239
Trade and other receivables (Note 4)	20	43
Prepaid expenses and deposits	49	119
	121	2,401
Non-current assets		
Equipment (Note 5)	262	327
Mineral properties (Note 6)	29,067	27,935
Total assets	29,450	30,663
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,241	1,159
Due to related parties (Note 7)	696	–
	1,937	1,159
Long-term liabilities		
Provisions for reclamation	278	380
Total liabilities	2,215	1,539
Equity		
Common shares (Note 8 (a))	57,791	57,360
Warrants (Note 8 (b))	815	541
Contributed surplus	3,869	3,751
Deficit	(37,730)	(33,930)
Accumulated other comprehensive income	2,490	1,402
Total equity	27,235	29,124
Total liabilities and equity	29,450	30,663

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 6 and 14)
Subsequent events (Notes 8 and 15)

Approved and authorized for issue by the Board on April 20, 2016.

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, 2015 and 2014

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

	2015 $	2014 $
Operating expenses		
Exploration		
Camp, community relations and related costs, net of recoveries	1,320	2,089
Project administration	866	1,064
Technical reports, assays and related costs	–	58
Other	3	5
	2,189	3,216
General and administration		
Salaries and benefits	1,081	600
Shareholder and investor relations	177	425
Professional and regulatory fees	165	260
Office and general	124	219
Travel	16	37
	1,563	1,541
Operating loss	3,752	4,757
Gain on the sale of an available-for-sale financial asset	–	(90)
Finance income	(5)	(28)
Foreign exchange loss (gain)	53	(30)
Loss for the year	3,800	4,609
Weighted average number of shares outstanding, basic and diluted	95,508,095	87,715,110
Loss per share, basic and diluted	$0.04	$0.05

Consolidated statements of comprehensive loss	2015 $	2014 $
Loss for the year	3,800	4,609
Items that may be subsequently reclassified to profit or loss		
Currency translation adjustment on foreign operations	(1,088)	(659)
Comprehensive loss	2,712	3,950

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

Lupaka Gold Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(presented in Thousands of Canadian Dollars)

	2015 $	2014 $
Cash flows used in operating activities		
Loss for the year	(3,800)	(4,609)
Adjustment for items not affecting cash:		
Depreciation (Note 5)	118	140
Share-based compensation (Note 8)	118	224
Provisions for reclamation	(102)	–
Loss (gain) on sale of equipment	9	(7)
Impairment loss on available-for-sale financial asset	–	(90)
Write-down of equipment	–	2
	(3,657)	(4,340)
Changes in non-cash working capital		
Trade and other receivables	23	180
Prepaid expenses and deposits	70	32
Trade payables and accrued liabilities	82	(248)
Due to related parties (Note 7)	696	–
Net cash used in operating activities	(2,786)	(4,376)
Cash flows from (used in) investing activities		
Proceeds on sale of equipment	–	284
Purchase of equipment	(62)	(78)
Proceeds on sale of Investment in Southern Legacy Minerals Inc.	–	995
Net cash from (used in) investing activities	(62)	1,201
Cash flows from financing activities		
Proceeds from private placement, net (Note 8)	705	1,521
Net cash from financing activities	705	1,521
Net decrease in cash and cash equivalents	(2,143)	(1,654)
Cash and cash equivalents - beginning of year	2,239	3,906
Effect of foreign exchange rate changes on cash and cash equivalents	(44)	(13)
Cash and cash equivalents - end of year	52	2,239

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

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014

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

	2015		2014	
	Number		Number	
Common shares (Note 8 (a))				
Balance – beginning of year	92,545,110	57,360	84,495,110	56,380
Issued pursuant to private placements	11,018,141	431	8,050,000	980
Balance – end of year	103,563,251	57,791	92,545,110	57,360
Share purchase warrants (Note 8 (b))				
Balance – beginning of year		541		716
Issued pursuant to a private placement		274		541
Share purchase warrants expired		–		(716)
Balance – end of year		815		541
Contributed surplus (Note 8 (c))				
Balance – beginning of year		3,751		2,811
Share-based payment expense		118		224
Share purchase warrants expired		–		716
Balance – end of year		3,869		3,751
Deficit				
Balance – beginning of year		(33,930)		(29,321)
Loss for the year		(3,800)		(4,609)
Balance – end of year		(37,730)		(33,930)
Accumulated other comprehensive income				
Balance – beginning of year		1,402		743
Currency translation adjustment on foreign operations		1,088		659
Balance – end of year		2,490		1,402
Total equity		27,235		29,124

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, exploring and developing mineral resource properties. Lupaka was dormant prior to January 1, 2010.

Currently all of Lupaka's resource properties 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. The Company announced on February 17, 2015 that its common shares would voluntarily be delisted from the Toronto Stock Exchange after the close of trading that day and immediately listed on the TSX Venture Exchange, which occurred with no interruption in trading.

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. The Company has a working capital deficit of $1,816,000, a loss of $3,800,000 for the year ended December 31, 2015 and a deficit of $37,730,000.

The Company's ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or obtain alternative financing, which it has been successful in doing so in the past. In addition, if the Company is to develop its near-term production-ready Invicta Gold Project, it will be necessary to obtain additional financing – see Note 15. 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 20, 2016.

2.2 Basis of measurement

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

2.3 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 14.

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.

The carrying values of capitalized amounts are reviewed annually or when indicators of impairment are present. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on the Company's intentions for development of such a project. If a project does not prove viable, all unrecoverable costs associated with the project are charged to loss in the year in which the property becomes impaired.

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, investment in Southern Legacy and trade and other payables.

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”.

Financial assets and financial liabilities classified as “fair-value-through-profit and loss” are measured at fair value with changes in those fair values recognized in loss for the year. Financial assets classified as “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive loss. Financial assets classified as “held-to-maturity” and “loans and receivables” are measured at amortized cost. Unrealized currency translation gains and losses on available-for-sale securities are recognized in loss for the year. Financial liabilities classified as “other financial liabilities” are measured initially at fair value and subsequently measured at amortized cost.

Cash and cash equivalents and trade and other receivables are classified as “loans and receivables” and are measured at amortized cost. The Company’s previously held investment in Southern Legacy was classified as “available for sale”. Trade and other payables and amounts due to related parties and non-controlling interest are designated as “other financial liabilities”. No financial assets or liabilities have been designated as at fair-value-through-profit-and-loss.

Impairment and non-collectability of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets, other than those at fair-value-through-profit-and-loss, may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying amount as follows: the carrying amount of the asset is reduced to its discounted estimated recoverable amount directly and the resulting loss is recognized in profit or loss for the year. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive loss are reclassified to loss for the year.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss for the year to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized in loss for the year are not reversed through loss for the year. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income or loss for the year.

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, 2015, 27,298,534 (December 31, 2014 – 18,183,000) 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 pronouncements have been issued but are not yet effective:

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

IFRS 15 - Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers, and SIC 31 - Revenue - Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is currently mandatory for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

4 Trade and other receivables

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

5 Equipment

In thousands of dollars	Vehicles and field equipment $	Office equip and furniture $	Total $
Cost			
Balance as at December 31, 2013	983	200	1,183
Additions	60	18	78
Disposal of equipment	(345)	(120)	(465)
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
Accumulated depreciation			
Balance as at December 31, 2013	375	140	515
Depreciation	106	34	140
Disposal of equipment	(68)	(118)	(186)
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
Carrying amounts			
Balance as at December 31, 2014	285	42	327
Balance as at December 31, 2015	241	21	262

During the year ended December 31, 2015, $113,000 (2014 – $135,000) of depreciation was included in project administration and $5,000 (2014 – $5,000) of depreciation was included in office and general.

On January 12, 2014, the Company completed the sale of field equipment with a carrying value of $277,000 as at December 31, 2013 for $284,000.

6 Mineral properties

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

Invicta Gold Project ("Invicta")
In connection with the Company's October 2012 acquisition of AAG, the Company acquired Invicta, located in the Lima Region of central Peru, which comprises of 46 concession and petition claims that are held by IMC and which make up the Invicta Gold Project.

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

The option agreement required the Company to pay Barrick US$200,000 for the mining rights, plus a 1% Net Smelter Royalty ("NSR") capped at $1,107,000 (US$800,000). The agreement also calls for advance annual royalty payments of US$100,000, commencing on the date of exercising the option and every anniversary thereafter. To December 31, 2015, US$800,000 has been paid for the mining rights and advance royalties and US$100,000 is accrued.

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

The carrying value of the Invicta mineral property as at December 31, 2015 is $11,284,000 ($10,845,000 – December 31, 2014). The change in carrying value of $439,000 for the year ended December 31, 2015 is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2014 to December 31, 2015.

Crucero Gold Project ("Crucero")
The Crucero concessions comprise of 6 100%-owned mining concessions (which are not subject to any royalty interest) and 3 mining concessions held under a 30-year assignment which expires in September 2038 (subject to a maximum of a 5% net smelter return royalty on all gold and other minerals produced from the assigned concessions, dependent on the price of gold). These nine concessions are held by LGP and make up the Crucero Gold Project.

The carrying value of Crucero as at December 31, 2015 is $17,783,000 ($17,090,000 – December 31, 2014). The change in carrying value of $693,000 for the year ended December 31, 2015 is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2014 to December 31, 2015.

Josnitoro Gold Project ("Josnitoro")

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

The Company would be the project operator and must pay 100% of the cost of the required earn-in activities. In order to exercise the Option to acquire a 65% interest, the Company must maintain the related concessions in good-standing, obtain the required permits and licenses, including community agreements, and invest at least US$500,000 to obtain the aforementioned social and legal permits which shall enable the Company to start exploration within 3 years of the execution of a definitive agreement. Once the aforementioned permits have been obtained, the Company shall have 3 years to complete at least 10,000 metres of drilling, of which 3,000 metres will have to be fulfilled in the event that the Company opts out from the foregoing agreement without having exercised the Option. In the event that the Company does not obtain the aforementioned permits, the minimum metres to be drilled will not be required by Hochschild. Once the 10,000 metres of drilling have been completed, the Company shall have one year to deliver a preliminary economic assessment ("PEA") to Hochschild. In the event that the Company is not able to receive community permission to commence drilling, the Company can abandon the Option with no penalty.

The carrying value of the Josnitoro Gold Project, for which no consideration has been paid, as at December 31, 2015 and 2014 was $Nil.

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, 2015 and 2014, the Company had related party transactions with K-Rok Minerals Inc. ("K-Rok", a significant shareholder of the Company), which is owned 60% by ABE Industries Inc. ("ABE"), 35% by Havilah Holdings Inc. ("Havilah") and 5% by another individual. ABE is wholly-owned by Gordann Consultants Ltd., a company in which Gordon Ellis owns a 51% interest and his wife, Margaret Ellis, owns a 49% interest. Gordon Ellis is the 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	**2015** **$**	**2014** **$**
Shareholder and investor relations	S	60	116
Project administration	S, D	38	30
Salaries and benefits	S, D	11	18
Professional and regulatory fees	D	–	17
		109	181

(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	**2015** **$**	**2014** **$**
Salaries and benefits	501	601
Termination benefits	644	–
Share-based compensation	82	172
Total key management compensation	1,227	773

(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, 2015:

i) $20,000 was payable to an officer, director and a company controlled by a related party for unpaid services rendered, and

ii) $676,000 was payable to the former President and C.E.O., pursuant to the October 2015 termination of his employment from the Company.

8 Equity

a) Common shares

Authorized: unlimited with no par value.

On August 7, 2014, the Company closed a non-brokered private placement (the "Placement") and issued 8,050,000 units (the "Units") priced at $0.20 per Unit, with each Unit consisting of one common share in the capital of Lupaka and one transferable common share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one additional common

share, exercisable at $0.30 up to and including August 7, 2017. As part of the Placement, certain directors and officers of the Company acquired a total of 1,050,000 Units. Finders' fees payable in connection with the Placement consisted of approximately $73,000 in commissions and 322,500 finders' Warrants. Share issue costs, including commissions, totalled approximately $89,000.

Proceeds and related issue costs of the Placement have been allocated between share capital and warrants. For purposes of this allocation, the Company allocated $0.14 of the issue price of each common share and $0.06 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, 106% expected annual volatility, a risk-free rate of 1.07% and expected dividends of $Nil.

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.

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.

Subsequent to the current year-end, 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 "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. 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 $2,800.

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

b) Share purchase warrants

As a result of the Placement outlined in Note 8 (a), the Company now has the following share purchase warrants outstanding:

	Weighted average exercise price $	**Number of share purchase warrants**
Outstanding – beginning of year	0.41	8,985,000
Placement Warrants issued:		
August 21, 2018 expiry	0.15	6,460,854
September 25, 2018 expiry	0.15	2,146,430
December 31, 2018 expiry	0.10	2,200,000
Expired	1.87	(612,500)
Outstanding – end of year	0.21	19,179,784

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.

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2015:

Expiry date	**Exercise price $**	**Number of share purchase warrants**
August 7, 2017	0.30	8,372,500
August 21, 2018	0.15	6,460,854
September 25, 2018	0.15	2,146,430
December 31, 2018	0.10	2,200,000

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, 2015 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:

	2015		2014	
	Number of share options	**Weighted average exercise price $**	**Number of share options**	**Weighted average exercise price $**
Options outstanding – beginning of period	9,198,000	0.48	8,439,350	0.57
Granted	2,790,000	0.06	1,735,000	0.13
Forfeited	(958,000)	0.33	(976,350)	0.62
Cancelled	–	–	–	–
Options expired	(2,911,250)	0.51	–	–
Options outstanding – end of period	8,118,750	0.34	9,198,000	0.48
Options exercisable – end of period	5,668,750	0.46	7,444,250	0.56

No share options were exercised in the years ended December 31, 2015 and 2014.

The weighted average fair value of the share options granted in the year was estimated to be $0.04 (2014 – $0. 08) per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	2015	2014
Weighted average market price ($)	0.06	0.13
Weighted average exercise price ($)	0.06	0.13
Dividend yield	–	–
Risk free interest rate (%)	0.73	1.23
Expected life (years)	3.5	3.4
Pre-vest forfeiture rate (%)	5.0	5.0
Expected volatility (%)	113	95

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 $118,000 have been recorded for the year ended December 31, 2015 (December 31, 2014 – $224,000), and allocated as follows:

In thousands of dollars	**2015** **$**	**2014** **$**
Salaries and benefits	78	134
Shareholder and investor relations	10	15
Project administration	27	66
Camp and related	3	6
Consulting and other	–	3
Total share-based compensation	118	224

The following table summarizes information about share options outstanding and exercisable at December 31, 2015:

		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)**
2016	0.50 – 1.21	906,000	1.07	0.7	906,000	1.07	0.7
2016	2.00 – 3.22	232,750	2.32	0.6	232,750	2.32	0.6
2017	0.45	935,000	0.45	1.9	935,000	0.45	1.9
2018	0.20 – 0.40	1,825,000	0.26	2.7	1,825,000	0.27	2.7
2019	0.13	1,430,000	0.13	3.8	1,072,500	0.13	3.8
2020	0.06	2,790,000	0.06	4.9	697,500	0.06	4.9
	0.06 – 3.22	8,118,750	0.34	3.3	5,668,750	0.46	2.6

9 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2015 and 2014 are as follows:

In thousands of dollars	**2015** **$**	**2014** **$**
Deferred income tax assets:		
Non-capital loss carry-forwards, net	2,042	2,266
Property and equipment	7,754	7,215
Net capital loss carry-forwards	395	396
Share issuance costs	16	146
Reclamation obligation	84	108
Southern Legacy investment	–	–
Other	41	41
Deferred income tax assets, net	10,332	10,172
Unrecognized tax assets	(10,332)	(10,172)
	–	–

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	**2015** **$**	**2014** **$**
Loss for the year before income tax expense (recovery)	(3,800)	(4,609)
Average statutory rate	26.00%	26.00%
Expected income tax recovery at statutory rates	(988)	(1,198)
Non-deductible expenses	93	132
Effect of different tax rates in foreign jurisdictions	655	(63)
Difference in prior year tax returns	274	719
Expiration of tax losses	–	123
Difference in future and current tax rates	85	1,184
Impact of difference in functional and tax currencies	(345)	(214)
Amounts charged to equity	66	39
Unrecognized tax assets	160	(722)
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 $11.3 million (2014 - $9.4million) and $3.5 million (2014 - $2.4 million), respectively. The Canadian losses, if not utilized, will expire over 2029 through 2035, while the Peruvian losses, if not utilized, will expire over 2015 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 commercial production has not commenced.

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	**2015** **$**	**2014** **$**
Loss		
Canada	1,611	1,393
Peru	2,189	3,216
	3,800	4,609

In thousands of dollars	**December 31, 2015** **$**	**December 31, 2014** **$**
Total assets		
Canada	69	1,967
Peru	29,381	28,696
	29,450	30,663

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 equity (2015 – $27,235,000; 2014 – $29,124,000).

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.

The Company expects that its current capital resources will be sufficient to carry out its planned exploration and development plans and operations through its current operating period, subject to obtaining additional financing. At December 31, 2015, the Company is seeking opportunities to obtain funding to repay liabilities as they come due and restructure the Company's capital structure (see Note 1). The Company 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.

Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and trade and other receivables.

The Company minimizes the credit risk of cash and cash equivalents by depositing only with Canadian chartered banks and other banks of good credit standing.

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, 2015 and 2014, the Company's undiscounted contractual obligations and their maturity dates were as follows:

In thousands of dollars	**December 31, 2015 $**	**December 31, 2014 $**
Trade and other payables (within 12 months)	1,937	1,159
Provision for reclamation (after 5 years)	396	380
Total	2,333	1,539

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, 2015 $**	**December 31, 2014 $**
Cash and cash equivalents	5	121
Current assets	4	–
Current liabilities	(624)	(480)

Based on the above net exposure as at December 31, 2015, 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 +/- $85,000 (2014 – $41,000) in the Company's net loss for the year.

Price risk
Prior to the disposition of Southern Legacy in June 2014, the Company had exposure to fluctuations in the market prices of this financial instrument. As of December 31, 2015 and 2014 the Company does not have exposure to price risk.

Interest rate risk
The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents. There is minimal risk that the Company would recognize any significant loss as a result of a decrease in the fair value of any short-term investments as a result of fluctuations in interest rates included in cash and cash equivalents, due to their short term nature.

Commodity price risk
Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of gold. Gold has fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold may be produced in the future, a profitable market will exist for gold. A decline in the market price of gold may also require the Company to reduce its mining interests, which could have a material and adverse effect on the Company's value. As of December 31, 2015, the Company was not a gold producer. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

(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. The Company's previously held investment in Southern Legacy was classified as Level 1 of the fair value hierarchy.

At December 31, 2015 and 2014, 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 Supplemental cash flow information

Cash and cash equivalents comprise the following:

In thousands of dollars	**December 31, 2015 $**	**December 31, 2014 $**
Cash on hand and balances with banks	52	410
Cash equivalents	–	1,829
	52	2,239

14 Commitments and contingencies

SUNAT, the Peruvian tax authority, completed its audit of the tax filings of a former AAG Peruvian subsidiary for the years 2002 to 2004. SUNAT has challenged the deductibility of certain property write-offs and foreign exchange losses in those filings that may result in additional tax assessments and the imposition of fines and interest amounting in total to approximately US$5,000,000. The Company is of the opinion that these deductions are legitimate and can be successfully defended in the appeals processes that are available under Peruvian law, which may take as long as five years to reach a conclusion. As at December 31, 2015, no loss provision has been made in these consolidated financial statements.

15 Subsequent event

On January 22, 2016, the Company announced that it had signed a non-binding Letter of Intent with Pandion Mining Finance LLC (“Pandion”) to fund the completion of development and subsequent production at its Invicta Gold Project (“Invicta”). This financing is subject to Pandion’s completion of additional due diligence and the execution of a Definitive Agreement, originally by April 30, 2016 and recently mutually amended to May 31, 2016.

It is anticipated that the ~US$10,600,000 in funding would be provided to the Company in two tranches: the first of ~US$3,600,000 is expected to allow the Company to attain a Phase 1 production level of 150 tonnes per day (“tpd”). Within one year of operations, a second tranche of ~US$7,000,000 would be made available to allow the Company to complete the expansion of its mine production to 350 tpd, and the construction and commissioning of its own processing facility.