Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2014 and 2013
(expressed in Canadian Dollars)

March 26, 2015

Independent Auditor's Report

To the Shareholders of Lupaka Gold Corp.

We have audited the accompanying consolidated financial statements of Lupaka Gold Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 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. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their 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 Accountants

Lupaka Gold Corp.

Consolidated Statements of Financial Position
As at December 31, 2014 and 2013

(expressed in thousands of Canadian Dollars)

	December 31, 2014 $	December 31, 2013 $
Assets		
Current assets		
Cash and cash equivalents	2,239	3,906
Trade and other receivables (Note 4)	43	222
Prepaid expenses and deposits	119	151
	2,401	4,279
Non-current assets		
Investment in Southern Legacy Minerals Inc. (Note 6)	–	904
Equipment (Note 5)	327	669
Mineral properties (Note 7)	27,935	27,254
Total assets	30,663	33,106
Liabilities		
Current liabilities		
Trade and other payables	1,159	1,406
Long-term liabilities		
Provisions for reclamation	380	371
Total liabilities	1,539	1,777
Equity		
Common shares (Note 9(a))	57,360	56,380
Warrants (Note 9(b))	541	716
Contributed surplus	3,751	2,811
Deficit	(33,930)	(29,321)
Accumulated other comprehensive income	1,402	743
Total equity	29,124	31,329
Total liabilities and equity	30,663	33,106

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 7 and 15)

Approved and authorized for issue by the Board on March 26, 2015.

signed " Eric Edwards"
Director

signed "John Graf"
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, 2014 and 2013

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

	2014 $	2013 $
Operating expenses		
Exploration		
Camp, community relations and related costs	2,089	2,134
Project administration	1,064	2,772
Technical reports, assays and related costs	58	320
Other	5	100
	3,216	5,326
General and administration		
Salaries and benefits	600	1,094
Shareholder and investor relations	425	1,175
Professional and regulatory fees	260	414
Office and general	219	238
Travel	37	47
	1,541	2,968
Operating loss	4,757	8,294
(Gain) on sale, impairment loss on available-for-sale financial asset (Note 6)	(90)	1,657
Finance income	(28)	(60)
Foreign exchange gain	(30)	(109)
Loss for the year	4,609	9,782
Weighted average number of shares outstanding, basic and diluted	87,715,110	84,242,363
Loss per share, basic and diluted	$0.05	$0.12

Consolidated statements of comprehensive loss	2014 $	2013 $
Loss for the year	4,609	9,782
Items that may be subsequently reclassified to profit or loss		
Currency translation adjustment on foreign operations	(659)	724
Comprehensive loss	3,950	10,506

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, 2014 and 2013

(expressed in Thousands of Canadian Dollars)

	2014 $	2013 $
Cash flows from (used in) operating activities		
Loss for the year	(4,609)	(9,782)
Adjustment for items not affecting cash:		
Depreciation	140	350
Impairment loss on available-for-sale financial asset	(90)	1,657
Share-based compensation	224	618
Write-down of equipment	2	89
Gain on sale of equipment	(7)	(7)
	(4,340)	(7,075)
Changes in non-cash working capital		
Trade and other receivables	180	210
Prepaid expenses and deposits	32	1
Trade and other payables	(248)	387
Provision for reclamation	–	(173)
Net cash used in operating activities	(4,376)	(6,650)
Cash flows from (used in) investing activities		
Proceeds on sale of Investment in Southern Legacy Minerals Inc.	995	–
Proceeds on sale of equipment	284	10
Purchase of equipment	(78)	(107)
Purchase of available-for-sale financial asset	–	(52)
Net cash from (used in) investing activities	1,201	(149)
Cash flows from financing activities		
Proceeds from private placement, net (Note 9)	1,521	–
Net cash from financing activities	1,521	–
Net decrease in cash and cash equivalents	(1,654)	(6,799)
Cash and cash equivalents - beginning of year	3,906	10,716
Effect of foreign exchange rate changes on cash and cash equivalents	(13)	(11)
Cash and cash equivalents - end of year	2,239	3,906

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2014 and 2013

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

	2014		2013	
	Number	**$**	**Number**	**$**
Common shares (Note 9 (a))				
Balance – beginning of year	84,495,110	56,380	81,751,769	55,782
Issued pursuant to a private placement	8,050,000	980	–	–
Shares issued	–	–	3,221,127	598
Return to treasury	–	–	(477,786)	–
Balance – end of year	92,545,110	57,360	84,495,110	56,380
Share purchase warrants (Note 9 (b))				
Balance – beginning of year		716		802
Issued pursuant to a private placement		541		–
Share purchase warrants expired		(716)		(86)
Balance – end of year		541		716
Contributed surplus (Note 9 (c))				
Balance – beginning of year		2,811		2,107
Share-based payment expense		224		618
Share purchase warrants expired		716		86
Balance – end of year		3,751		2,811
Share-based contingent consideration				
Balance – beginning of year		–		598
Shares issued		–		(598)
Balance – end of year		–		–
Deficit				
Balance – beginning of year		(29,321)		(19,539)
Loss for the year		(4,609)		(9,782)
Balance – end of year		(33,930)		(29,321)
Accumulated other comprehensive income				
Balance – beginning of year		743		1,467
Currency translation adjustment on foreign operations		659		(724)
Balance – end of year		1,402		743
Total equity		29,124		31,329

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

1 Nature of operations

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 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 Peru on the Bolsa de Valores de Lima (“BVL”, otherwise known as the Lima Stock Exchange) under the symbol LPK, and in Germany on the Frankfurt Exchange under the symbol LQP. 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’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 advance or develop its Invicta Gold Project, it will be necessary to obtain additional financing. 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 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 March 26, 2015.

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.

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 15.

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.

2.6 Related parties

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

3 Significant accounting policies

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.

Once management has determined that the development potential of the property is economically viable, 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 direct costs to sell 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 a 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 fair value. The Company's previously held investment in Southern Legacy is 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, 2014, 18,183,000 (December 31, 2013 – 15,718,517) 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 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.

3.15 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.

3.16 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.

3.17 New standards and interpretations

The Company has applied the following new and revised IFRS standards and interpretations in these consolidated financial statements effective January 1, 2014:

- IFRIC 21, Levies,
- IAS 1, Presentation of Financial Statements

Adoption of the above standards and interpretations did not have a significant effect on the consolidated financial statements of the Company.

In May 2014, IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) was issued, which is applicable for annual reporting periods beginning on or after January 1, 2017, with an option for early adoption. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The Company is in the process of analyzing the impact of IFRS 15 and determining the effect on the consolidated financial statements.

In July 2014 IFRS 9, Financial Instruments (“IFRS 9”) was issued. The completed standard provides revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. This final version of IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of analyzing the impact of IFRS 9 and determining the effect on the 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, 2012	1,018	152	1,170
Additions	59	48	107
Write-down of equipment	(89)	–	(89)
Sale of equipment	(4)	–	(4)
Balance as at December 31, 2013	984	200	1,184
Additions	60	18	78
Disposal of equipment	(345)	(120)	(465)
Balance as at December 31, 2014	698	98	796
Accumulated depreciation			
Balance as at December 31, 2012	124	43	167
Depreciation	253	97	350
Sale of equipment	(2)	–	(2)
Balance as at December 31, 2013	375	140	515
Depreciation	107	34	140
Disposal of equipment	(68)	(118)	(186)
Balance as at December 31, 2014	414	55	469
Carrying amounts			
Balance as at December 31, 2012	894	109	1,003
Balance as at December 31, 2013	609	60	669
Balance as at December 31, 2014	284	43	327

During the year ended December 31, 2014, $135,000 (2013 – $337,000) of depreciation was included in project administration and $5,000 (2013 – $13,000) 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 Investment in Southern Legacy Minerals Inc. ("Southern Legacy")

As a result of the October 2012 acquisition of AAG, the Company acquired 9,841,269 common shares in Southern Legacy, representing approximately 17% of the issued and outstanding ownership shares of Southern Legacy, and which the Company classified as an available-for-sale financial asset. At the October 1, 2012, date of initial recognition, the fair market value of this investment was $3,986,000.

On October 22, 2013, the Company acquired an additional 208,333 common shares in Southern Legacy at a cost of $52,000. As a result of this acquisition, the Company owned a total of 10,049,602 common shares in Southern Legacy, representing approximately 17% of the issued and outstanding ownership shares of Southern Legacy.

On July 30, 2014, the Company sold all of its shares of Southern Legacy in an open-market transaction conducted through the TSX Venture Exchange for net proceeds of approximately $995,000. This sale resulted in a realized loss of $3,043,000, of which the Company recognized a net gain of $90,000 in 2014, loss of $1,657,000 in 2013 and loss of $1,476,000 in 2012.

7 Mineral properties

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

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

The carrying value of Crucero as at December 31, 2014 is $17,090,000 ($16,673,000 – December 31, 2013). The change in carrying value of $417,000 for the year ended December 31, 2014 is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2013 to December 31, 2014.

Invicta Gold Project ("Invicta")
In connection with the Company's October 2012 acquisition of AAG, the Company acquired Invicta, which is located in the Lima Region of central Peru, which comprises forty-six 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"), that was exercised in 2007. The option agreement requires 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 agreement also calls for advance annual royalty payments of US$100,000, commencing on the date of exercising the option and every anniversary (in May) thereafter. To December 31, 2014, US$800,000 has been paid for the mining rights and advance royalties. In addition to the advance royalty payments, and only on the commencement of production, the Company will be required to also pay Barrick on a quarterly basis an amount of US$50,000, which is capped at a total of US$800,000.

Pursuant to the terms of a separate option agreement reached with ABX, the Company is required to provide ABX with a copy of any completed Invicta Feasibility Study. Barrick has a 90-day period to review the study. If such a study demonstrates more than two million ounces of mineable gold-only

reserves at Invicta, ABX has the option to exercise a back-in-right. Should ABX choose to exercise this back-in-right, they would be required to pay the Company 150% of all costs incurred at Invicta in exchange for 51% of the project. The most recent Invicta Feasibility Study was provided to ABX in early 2012 by AAG and does not demonstrate, under the Canadian Institute of Mining Metallurgy definition, two million ounces of mineable gold-only reserves at Invicta. In addition, Barrick has a 30 day calendar day right of first refusal ("ROFR") in the event that the Company wishes to transfer part or all of its shares and mining rights of the properties acquired pursuant to the Barrick option agreement. No ROFR was applicable to the Company's acquisition of AAG.

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.

The carrying value of the Invicta mineral property as at December 31, 2014 is $10,845,000 ($10,581,000 – December 31, 2013). The change in carrying value of $264,000 for the year ended December 31, 2014 is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2013 to December 31, 2014.

Josnitoro Gold Project ("Josnitoro")

On November 26, 2013, the Company announced that it had entered into a memorandum of understanding with Compañía Minera Ares S.A.C. and Minera del Suroeste S.A.C. (indirect subsidiaries of Hochschild Mining plc ("Hochschild")) with regards to the execution of a definitive agreement (the "Josnitoro Agreement") that will allow the Company 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 nineteen concessions.

Pursuant to the Josnitoro Agreement, which was registered on June 18, 2014 with the Cusco Mining Registry, the Company will 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 2 years of the execution of a definitive agreement. Once the aforementioned permits have been obtained, the Company shall have three 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 the 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.

Upon completing the PEA, the Company may exercise the option at which point a NEWCO would be formed, the mining concessions transferred, and the participating 65/35 joint venture established. Hochschild may buy back 30% of the joint venture (raising their interest to 65%) by paying three times the Company's incurred expenses plus a US$2,000,000 payment. If Hochschild elects to

exercise their buy-back right, they must notify the Company within 90 days of the delivery of the PEA.

If Hochschild does not exercise its buy-back rights and elects to retain its 35% joint venture interest, they may elect to convert this interest into a 5% net smelter return royalty (“NSR”). In that event, the Company may buy-down the NSR to 1.5% (reducing by 3.5%) by making a one-time payment of US$10,500,000 in cash.

Management projects that the costs of meeting the earn-in requirements will be approximately US$300,000 per year for the first two years, US$3,000,000 for drilling 10,000 metres and $300,000 to prepare a PEA.

The carrying value of the Josnitoro Gold Project, for which no consideration has been paid, as at December 31, 2014 and 2013 was $Nil.

8 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, 2014 and 2013, 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	**2014** **$**	**2013** **$**
Shareholder and investor relations	S	116	140
Project administration	S, D	30	63
Salaries and benefits	S, D	18	32
Professional and regulatory fees	D	17	–
Technical reports	S	–	4
		181	239

(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	**2014** **$**	**2013** **$**
Salaries and benefits	601	929
Share-based compensation	172	321
Total key management compensation	773	1,250

(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, 2014, there was no amount payable to or receivable from related parties.

9 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. The common shares and Warrants issued in the Placement were subject to a four-month hold period, which expired on December 7, 2014. 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 based on the residual value of the underlying common shares 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.

b) Share purchase warrants

As a result of the Placement outlined in Note 9 (a), the Company now has the following share purchase warrants outstanding:

	Weighted average exercise price $	**Number of share purchase warrants**
Outstanding – beginning of year	2.22	7,279,167
Placement Warrants issued:		
August 7, 2017 expiry	0.30	8,372,500
Expired	2.25	(6,666,667)
Outstanding – end of year	0.41	8,985,000

The Placement Warrants are subject to an acceleration clause. In the event that the closing price of Lupaka's common shares is greater than $0.40 for a period of 20 consecutive trading days, Lupaka may accelerate the expiry date of the Warrants by giving notice to the holders thereof, through the issuance of a press release or written notice. 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, 2014:

Expiry date	**Exercise price $**	**Number of share purchase warrants**
February 12, 2015	1.87	612,500
August 7, 2017	0.30	8,372,500

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, 2014 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:

	2014		2013	
	Number of share options	Weighted average exercise price $	Number of share options	Weighted average exercise price $
Options outstanding – beginning of period	8,439,350	0.57	6,348,475	0.86
Granted	1,735,000	0.13	3,675,000	0.34
Forfeited	(976,350)	0.62	(1,144,350)	0.94
Cancelled	–	–	(434,875)	1.93
Options expired	–	–	(4,900)	1.63
Options outstanding – end of period	9,198,000	0.48	8,439,350	0.57
Options exercisable – end of period	7,444,250	0.56	5,855,600	0.67

No options were exercised in 2014 or 2013.

The weighted average fair value of the share options granted in the year was estimated to be $0.08 (2013 – $0. 14) per option at the grant dates using the Black-Scholes option-pricing model and based on the following weighted average assumptions:

	2014	2013
Weighted average market price ($)	0.13	0.26
Weighted average exercise price ($)	0.13	0.34
Dividend yield	–	–
Risk free interest rate (%)	1.23	1.22
Expected life (years)	3.4	2.9
Expected volatility (%)	95	94
Pre-vest forfeiture rate (%)	5.0	5.0

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 $224,000 have been recorded for the year ended December 31, 2014 (December 31, 2013 – $618,000), allocated as follows:

In thousands of dollars	2014 $	2013 $
Salaries and benefits	134	330
Shareholder and investor relations	15	155
Project administration	66	111
Camp and related	6	13
Consulting and other	3	9
Total share-based compensation	224	618

The following table summarizes information about share options outstanding and exercisable at December 31, 2014:

		Outstanding			Exercisable		
Year of Expiry	Range of exercise prices $	Number of options outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price $	Weighted average remaining contractual life (years)
2015	0.30 – 0.40	750,000	0.33	0.5	750,000	0.33	0.5
2015	0.50 – 0.75	2,100,000	0.54	0.7	2,100,000	0.54	0.7
2015	1.71	61,250	1.71	0.4	61,250	1.71	0.4
2016	0.50 – 1.21	994,000	1.09	1.7	994,000	1.09	1.7
2016	2.00 – 3.22	232,750	2.32	1.6	232,750	2.32	1.6
2017	0.45	1,100,000	0.45	2.9	1,100,000	0.45	2.9
2018	0.20 – 0.40	2,225,000	0.26	3.7	1,772,500	0.27	3.7
2019	0.13	1,735,000	0.13	4.8	433,750	0.13	4.8
	0.13 – 3.22	9,198,000	0.48	2.6	7,444,250	0.56	2.1

10 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2014 and 2013 are as follows:

In thousands of dollars	**2014 $**	**2013 $**
Deferred income tax assets:		
Non-capital loss carry-forwards, net	2,266	2,670
Property and equipment	7,215	7,347
Net capital loss carry-forwards	396	–
Share issuance costs	146	304
Reclamation obligation	108	125
Southern Legacy investment	–	407
Other	41	41
Deferred income tax assets, net	10,172	10,894
Unrecognized tax assets	(10,172)	(10,894)
	–	–

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	**2014 $**	**2013 $**
Loss for the year before income tax expense (recovery)	(4,609)	(9,782)
Average statutory rate	26.00%	25.75%
Expected income tax recovery at statutory rates	(1,198)	(2,518)
Non-deductible expenses	132	66
Effect of different tax rates in foreign jurisdictions	(63)	(547)
Difference in prior year tax returns	719	2,625
Expiration of tax losses	123	325
Difference in future and current tax rates	1,184	136
Impact of difference in functional and tax currencies	(214)	209
Amounts charged to equity	39	(62)
Unrecognized tax assets	(722)	(234)
Income tax expense	–	–

The Canadian statutory tax rate increased from 25.75% to 26.00% due to legislated changes.

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 $9.4 million (2013 - $7.5 million) and $2.4 million (2013 - $3.3 million), respectively. The Canadian losses, if not utilized, will expire over 2029 through 2034, while the Peruvian losses, if not utilized, will expire over 2015 through 2018. 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.

11 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	**2014** **$**	**2013** **$**
Loss		
Canada	1,393	4,455
Peru	3,216	5,327
	4,609	9,782

In thousands of dollars	**December 31, 2014** **$**	**December 31, 2013** **$**
Total assets		
Canada	1,967	4,882
Peru	28,696	28,224
	30,663	33,106

12 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 (2014 – $29,124,000; 2013 – $31,329,000).

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 (see Note 1). The Company is currently not subject to externally imposed capital requirements.

13 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 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, 2014 and 2013, the Company's contractual obligations (undiscounted) and their maturity dates were as follows:

In thousands of dollars	**December 31, 2014 $**	**December 31, 2013 $**
Trade and other payables (within 12 months)	1,159	1,406
Provision for reclamation (after 5 years)	380	371
Total	1,539	1,777

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 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, 2014 $**	**December 31, 2013 $**
Cash and cash equivalents	121	1,290
Current liabilities	(480)	(434)

Based on the above net exposure as at December 31, 2014, 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 +/- $41,000 (2013 – $91,000) in the Company's net loss or income.

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, 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, 2014, 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. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

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.

14 Supplemental cash flow information

Cash and cash equivalents comprise the following:

In thousands of dollars	**December 31, 2014 $**	**December 31, 2013 $**
Cash on hand and balances with banks	410	305
Cash equivalents	1,829	3,601
	2,239	3,906

At December 31, 2014, the Company's short-term investments are invested in premium investment savings accounts of a Canadian chartered bank, and are cashable at any time.

15 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, 2014, no loss provision has been made in these consolidated financial statements.

The Company's remaining minimum operating lease payments to September 30, 2017, excluding operating costs, for its Vancouver, Canada office total $46,000 as at December 31, 2014 (2013 – $Nil).