# Lupaka Gold Corp.

**Condensed Consolidated Interim Financial Statements**
**For the three and nine months ended September 30, 2014 and 2013**
(Expressed in Canadian Dollars)

(Unaudited)

## NOTICE TO READER

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

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

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

.

# Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

As at September 30, 2014 and December 31, 2013

(Expressed in thousands of Canadian Dollars)

| | **September 30, 2014 $** | **December 31, 2013 $** |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 2,930 | 3,906 |
| Trade and other receivables (Note 4) | 228 | 222 |
| Prepaid expenses and deposits | 254 | 151 |
| | 3,412 | 4,279 |
| **Non-current assets** | | |
| Investment in Southern Legacy Minerals Inc. (Note 6) | – | 904 |
| Equipment (Note 5) | 308 | 669 |
| Mineral properties (Note 7) | 27,806 | 27,254 |
| **Total assets** | 31,526 | 33,106 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 857 | 1,406 |
| Provision for reclamation | 378 | 371 |
| | 1,235 | 1,777 |
| **Equity** | | |
| Common shares (Note 9 (a)) | 57,360 | 56,380 |
| Warrants (Note 9 (b)) | 541 | 716 |
| Contributed surplus | 3,681 | 2,811 |
| Deficit | (32,576) | (29,321) |
| Accumulated other comprehensive income | 1,285 | 743 |
| Total equity | 30,291 | 31,329 |
| **Total liabilities and equity** | 31,526 | 33,106 |

**Nature of operations** (Note 1)
**Commitments** (Note 7)
**Contingencies** (Note 12)

Approved and authorized for issue by the Board on November 6, 2014.

*"signed" John Graf*
Director

*"signed" Eric Edwards*
Director

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

# Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited)
For the three and nine months ended September 30, 2014 and 2013

(Expressed in thousands of Canadian Dollars, except share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **$** | **$** | **$** | **$** |
| **Operating expenses** | | | | |
| Exploration | | | | |
| Camp, community relations and related costs | 384 | 279 | 1,360 | 1,709 |
| Project administration | 271 | 438 | 826 | 2,100 |
| Technical reports, assays and related costs | 7 | 27 | 58 | 249 |
| Other | 3 | 6 | 5 | 84 |
| | 665 | 750 | 2,249 | 4,142 |
| General and administration | | | | |
| Salaries and benefits | 126 | 210 | 453 | 856 |
| Shareholder and investor relations | 76 | 216 | 356 | 840 |
| Professional and regulatory fees | 10 | 91 | 146 | 300 |
| Office and general | 55 | 48 | 171 | 193 |
| Travel | 2 | 12 | 26 | 31 |
| | 269 | 577 | 1,152 | 2,220 |
| **Operating loss** | 934 | 1,327 | 3,401 | 6,362 |
| (Gain) on sale, impairment loss on available-for-sale financial asset (Note 6) | (391) | – | (90) | 1,329 |
| Finance income | (7) | (6) | (21) | (52) |
| Foreign exchange loss (gain) | (8) | 35 | (35) | (30) |
| **Loss for the period** | 528 | 1,356 | 3,255 | 7,609 |
| **Weighted average number of shares outstanding, basic and diluted** | 89,220,110 | 84,972,896 | 86,087,418 | 84,017,177 |
| **Loss per share, basic and diluted** | $0.01 | $0.02 | $0.04 | $0.09 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **Consolidated statements of comprehensive loss** | **2014** | **2013** | **2014** | **2013** |
| | **$** | **$** | **$** | **$** |
| **Loss for the period** | 528 | 1,356 | 3,255 | 7,609 |
| Items that may be subsequently reclassified to profit or loss | 402 | (787) | – | (787) |
| Currency translation adjustment on foreign operations | (413) | 588 | (542) | 1,481 |
| **Comprehensive loss** | 517 | 1,157 | 2,713 | 8,303 |

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

# Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)
For the three and nine months ended September 30, 2014 and 2013

(Expressed in thousands of Canadian Dollars)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014<br>$ | 2013<br>$ | 2014<br>$ | 2013<br>$ |
| **Cash flows from (used in) operating activities** | | | | |
| Loss for the period | (528) | (1,356) | (3,255) | (7,609) |
| Adjustment for items not affecting cash: | | | | |
| Depreciation | 52 | 106 | 138 | 269 |
| (Gain) on sale, impairment loss on available-for-sale financial asset | (391) | – | (90) | 1,329 |
| Share-based compensation | 32 | 100 | 154 | 429 |
| Loss on write-down of equipment | – | (15) | 3 | 90 |
| Gain on sale of equipment | – | (7) | (7) | (7) |
| | (835) | (1,172) | (3,057) | (5,499) |
| Changes in non-cash working capital | | | | |
| Trade and other receivables | 1 | 5 | (6) | 219 |
| Prepaid expenses and deposits | 10 | 83 | (103) | (42) |
| Trade and other payables | (167) | 102 | (549) | 135 |
| Provision for reclamation | 6 | (142) | 7 | (183) |
| **Net cash used in operating activities** | (985) | (1,124) | (3,708) | (5,370) |
| **Cash flows from (used in) investing activities** | | | | |
| Purchase of equipment | (23) | (1) | (57) | (76) |
| Proceeds on sale of equipment | – | 10 | 284 | 10 |
| Sale of Investment in Southern Legacy Minerals Inc. | 995 | – | 995 | – |
| **Net cash from (used in) investing activities** | 972 | 9 | 1,222 | (66) |
| **Cash flows from financing activities** | | | | |
| Proceeds from private placement, net (Note 9) | 1,521 | – | 1,521 | – |
| **Net cash from financing activities** | 1,521 | – | 1,521 | – |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | (4) | (1) | (11) | (20) |
| **Net increase (decrease) in cash and cash equivalents** | 1,504 | (1,116) | (976) | (5,456) |
| **Cash and cash equivalents – beginning of period** | 1,426 | 6,376 | 3,906 | 10,716 |
| **Cash and cash equivalents - end of period** | 2,930 | 5,260 | 2,930 | 5,260 |

**Supplemental cash flow information** (Note 11)

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

# Lupaka Gold Corp.

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)

For the three and nine months ended September 30, 2014 and 2013

(Expressed in thousands of Canadian Dollars, except share data)

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | **Number** | **$** | **Number** | **$** |
| **Common shares (Note 9 (a))** | | | | |
| Balance – beginning of period | 84,495,110 | 56,380 | 81,751,769 | 55,782 |
| Issued pursuant to a private placement | 8,050,000 | 980 | – | – |
| Shares issued (Note 7) | – | – | 3,221,127 | 598 |
| Balance – end of period | 92,545,110 | 57,360 | 84,972,896 | 56,380 |
| **Warrants (Note 9 (b))** | | | | |
| Balance – beginning of period | | 716 | | 802 |
| Issued pursuant to a private placement | | 541 | | – |
| Warrants expired | | (716) | | – |
| Balance – end of period | | 541 | | 802 |
| **Contributed surplus** | | | | |
| Balance – beginning of period | | 2,811 | | 2,107 |
| Share-based payment expense (Note 9 (c)) | | 154 | | 429 |
| Warrants expired | | 716 | | – |
| Balance – end of period | | 3,681 | | 2,536 |
| **Share-based contingent consideration** | | | | |
| Balance – beginning of period | | – | | 598 |
| Shares issued | | – | | (598) |
| Balance – end of period | | – | | – |
| **Deficit** | | | | |
| Balance – beginning of period | | (29,321) | | (19,539) |
| Loss for the period | | (3,255) | | (7,609) |
| Balance – end of period | | (32,576) | | (27,148) |
| **Accumulated other comprehensive income** | | | | |
| Balance – beginning of period | | 743 | | 1,467 |
| Increase in value of investment | | – | | 787 |
| Currency translation adjustment on foreign operations | | 542 | | (1,481) |
| Balance – end of period | | 1,285 | | 773 |
| | | 30,215 | | 33,343 |

## 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. In January 2012, Lupaka acquired the remaining 40% of Lupaka Gold Peru S.A.C. ("LGP", formerly known as Minera Pacacorral S.A.C.) that it did not own, and on October 1, 2012 Lupaka acquired 100% of the shares of Andean American Gold Corp. ("AAG") and its subsidiaries, which included a 17% ownership interest in Southern Legacy Minerals Inc. ("Southern Legacy") – see Note 6.

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 Toronto Stock Exchange ("TSX") 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.

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

On an ongoing basis, the Company examines various financing alternatives to address future funding requirements, though there is no guarantee of the sufficiency or success of these initiatives. See also Note 9.

## 2 Basis of preparation

### 2.1 Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS"). As such, these interim financial statements do not include all of the information required by IFRS for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

These interim statements also follow the same accounting policies and methods of computation as compared to the most recent consolidated financial statements for the year ended December 31, 2013.

These interim financial statements were approved by the Company's Board of Directors on November 6, 2014.

### 2.2 Judgments

In preparing these interim 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.

### 2.3 Basis of consolidation

The results of subsidiaries acquired or disposed of during the period 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:

- AAG, a Canadian company
- 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)

AAG and its wholly-owned subsidiaries, IMC, AES and Greenhydro, were acquired on October 1, 2012.

## 3 Change in accounting standards

The Company has applied the following new and revised IFRS standards and interpretations in these interim 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 interim financial statements of the Company.

In February 2014, the IASB decided that the effective date of IFRS 9, Financial Instruments ("IFRS 9"), will be January 1, 2018. Adoption of IFRS 9 could change the classification and measurement of financial assets and the extent of the effects of IFRS 9 on the interim financial statements has not been determined.

## 4 Trade and other receivables

The Company's trade and other receivables consist of goods and services equivalent 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 equipment 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 | 50 | 7 | 57 |
| Disposal of equipment | (363) | (100) | (463) |
| Balance as at September 30, 2014 | 671 | 107 | 778 |
| **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 | 113 | 25 | 138 |
| Disposal of equipment | (83) | (100) | (183) |
| Balance as at September 30, 2014 | 405 | 65 | 470 |
| **Carrying amounts** | | | |
| Balance as at December 31, 2013 | 609 | 60 | 669 |
| Balance as at September 30, 2014 | 266 | 42 | 308 |

During the nine months ended September 30, 2014, $134,000 ($258,000 – nine months ended September 30, 2013) of depreciation, a $7,000 ($7,000 – nine months ended September 30, 2013) gain on sale of field equipment and a $3,000 ($90,000 – nine months ended September 30, 2013) loss on write-down of field equipment were included in project administration, while $4,000 ($11,000 – nine months ended September 30, 2013) of depreciation was included in office and general.

## 6 Investment in Southern Legacy Minerals Inc.

As a result of the AAG acquisition, 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.

To acquire its initial 60% ownership of LGP, the Company entered into a mineral property identification and acquisition agreement with K-Rok, which acted as an agent for the Company. Additionally, on July 26, 2010 the Company entered into an Assignment and Assumption Agreement with K-Rok, as assignee of K-Rok's interests in the Minera Pacacorral Purchase Agreement (the "LGP Purchase Agreement"), pursuant to which the Company assumed the rights and obligations of K-Rok.

Under the LGP Purchase Agreement, the vendors of LGP sold to the Company 60% of the issued and outstanding shares of LGP in July 2010, in consideration for the payment of a total of US$10 million. Of the total consideration, US$7 million was paid prior to December 31, 2011, with the remaining US $3 million paid in January 2012.

The consideration payable to K-Rok pursuant to the Assignment and Assumption Agreement for the Crucero Gold Project consisted of the following:

(a) Issue 4,000,000 common shares of the Company to K-Rok (which have been issued and recorded at a fair value of $200,000).

(b) Issue two additional common shares of the Company (the "K-Rok Contingent Shares") for each ounce by which the gold resource for the six mining concessions that form part of Crucero are increased over the baseline resource of 808,695 ounces by an updated resource estimate based on all exploration completed on the six mining concessions to December 31, 2012. In March 2013, 3,221,127 K-Rok Contingent Shares were issued to K-Rok, and in December 2013, 477,786 of these shares were returned to the Company's treasury as a result of a revision of the related resource estimate.

On the date of the Assignment and Assumption Agreement with K-Rok, management calculated the fair value of the obligation to issue the K-Rok Contingent Shares using a weighted average probability analysis of the reported ounces in future updated resource estimates in accordance with IFRS 2 Share-Based Payments. The analysis included assumptions based on management's estimate at the time of acquisition of a) probable ounces at the time of the issue of the additional shares, b) the probable time of issuance of the additional shares, and c) the estimate of the Company's estimated share price at the time of issuance of the additional shares. A fair value of $598,000 was included as a cost of the initial acquisition of the Crucero mineral properties. The K-Rok Contingent shares were issued in 2013 and the initial fair value transferred from share-based contingent consideration to share capital.

The carrying value of Crucero as at September 30, 2014 was $17,011,000 ($16,673,000 – December 31, 2013). The change in carrying value of $338,000 for the nine months ended September 30, 2014 ($895,000 – nine months ended September 30, 2013) is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2013 to September 30, 2014.

***Invicta Gold Project ("Invicta")***
In connection with the Company's 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 September 30, 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 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 September 30, 2014 was $10,795,000 ($10,581,000 – December 31, 2013). The change in carrying value of $214,000 for the nine months ended September 30, 2014 ($567,000 – nine months ended September 30, 2013) is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2013 to September 30, 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$500,000.00 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 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 September 30, 2014 and December 31, 2013 was $Nil.

## 8. RELATED PARTY TRANSACTIONS

Details of transactions between the Company and other related parties are disclosed below. See also Note 9.

(a) Related party expenditures

The Company incurred the following expenditures in the normal course of operations in connection with private companies or firms controlled by directors of the Company and shareholders of K-Rok (including their immediate familes) as below:

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| Nature of Transaction | **2014** | **2013** | **2014** | **2013** |
| *In thousands of dollars* | **$** | **$** | **$** | **$** |
| Shareholder and investor relations | 28 | 30 | 88 | 110 |
| Project administration | 3 | 10 | 28 | 53 |
| Salaries and benefits | 9 | 5 | 14 | 27 |
| Professional and regulatory | 7 | – | 7 | – |
| Technical reports | – | 1 | – | 4 |
| | 47 | 46 | 137 | 194 |

(b) Key management compensation

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

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| *In thousands of dollars* | **$** | **$** | **$** | **$** |
| Salaries and benefits | 149 | 153 | 441 | 765 |
| Share-based compensation | 23 | 45 | 123 | 227 |
| Total key management compensation | 172 | 198 | 564 | 992 |

(expressed in Canadian Dollars)

(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 September 30, 2014, $1,700 was payable to a legal firm of which a Director is a principal partner ($Nil - December 31, 2013).

## 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 are subject to a four-month hold period expiring 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 pro-rata 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 period | 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 period | 0.41 | 8,985,000 |

(expressed in Canadian Dollars)

The Placement Warrants are subject to a hold period ending on December 7, 2014 and 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 September 30, 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. No options were granted in the three and nine months ended September 30, 2014.

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

| | **Nine months ended September 30** | | | |
|---|---|---|---|---|
| | **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 | – | – | 1,390,000 | 0.42 |
| Forfeited | (976,350) | 0.56 | (1,139,450) | 0.93 |
| Cancelled | – | – | (434,875) | 1.93 |
| Options expired | – | – | (4,900) | 1.63 |
| Options outstanding – end of period | 7,463,000 | 0.56 | 6,159,250 | 0.68 |
| Options exercisable – end of period | 6,548,000 | 0.61 | 4,754,250 | 0.75 |

No options were exercised in 2013 or during the three and nine months ended September 30, 2014.

No options were granted during the three and nine months ended September 30, 2014. The weighted average fair value of the share options granted in the nine months ended September 30, 2013 was estimated to be $0.17 per option at the grant dates using the Black-Scholes option-pricing model and based on the following weighted average assumptions:

| | Nine months ended September 30 | |
|---|---|---|
| | 2014 | **2013** |
| Weighted average market price ($) | – | 0.42 |
| Weighted average exercise price ($) | – | 0.31 |
| Dividend yield | – | – |
| Risk free interest rate (%) | – | 1.10 |
| Expected life (years) | – | 2.8 |
| Expected volatility (%) | – | 101 |

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.

Non-cash share-based compensation costs of $154,000 have been recorded for the nine months ended September 30, 2014 ($429,000 – nine months ended September 30, 2013), allocated as follows:

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| *In thousands of dollars* | **$** | **$** | **$** | **$** |
| Salaries and benefits | 19 | 72 | 90 | 232 |
| Project administration | 10 | 20 | 47 | 81 |
| Shareholder and investor relations | 1 | 6 | 9 | 101 |
| Camp and related | 1 | 2 | 5 | 9 |
| Consulting and other | 1 | 1 | 3 | 6 |
| Total share-based compensation | 32 | 101 | 154 | 429 |

The following table summarizes information about share options outstanding and exercisable at September 30, 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 | 0.7 | 750,000 | 0.33 | 0.7 |
| 2015 | 0.50 – 0.75 | 2,100,000 | 0.54 | 1.0 | 2,100,000 | 0.54 | 1.0 |
| 2015 | 1.71 | 61,250 | 1.71 | 0.6 | 61,250 | 1.71 | 0.6 |
| 2016 | 0.50 – 1.21 | 994,000 | 1.09 | 2.0 | 994,000 | 1.09 | 2.0 |
| 2016 | 2.00 – 3.22 | 232,750 | 2.32 | 1.8 | 232,750 | 2.32 | 1.8 |
| 2017 | 0.45 | 1,100,000 | 0.45 | 3.1 | 1,100,000 | 0.45 | 3.1 |
| 2018 | 0.20 – 0.40 | 2,225,000 | 0.26 | 4.0 | 1,310,000 | 0.27 | 3.9 |
| | 0.20 – 3.22 | 7,463,000 | 0.56 | 2.3 | 6,548,000 | 0.61 | 2.1 |

## 10 Segmented information

The Company operates in one segment, being mineral exploration and development. Losses for the three and nine months ended September 30, 2014 and 2013 and total assets by geographic location are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| *In thousands of dollars* | $ | $ | $ | $ |
| Loss (income) | | | | |
| Canada | (138) | 607 | 1,005 | 3,467 |
| Peru | 666 | 749 | 2,250 | 4,142 |
| | 528 | 1,356 | 3,255 | 7,609 |

| *In thousands of dollars* | September 30, 2014 $ | December 31, 2013 $ |
|---|---|---|
| Total assets | | |
| Canada | 2,964 | 4,882 |
| Peru | 28,562 | 28,224 |
| | 31,526 | 33,106 |

## 11 Supplemental cash flow information

Cash and cash equivalents comprise the following:

| *In thousands of dollars* | **September 30, 2014 $** | **December 31, 2013 $** |
|---|---|---|
| Cash on hand and balances with banks | 367 | 305 |
| Cash equivalents | 2,563 | 3,601 |
| | 2,930 | 3,906 |

At September 30, 2014, the Company's short-term investments are invested in premium investment savings accounts and guaranteed investment certificates of Canadian chartered banks, and are cashable at any time.

Investing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the nine months ended September 30, 2014, the following transaction was excluded from the statements of cash flows:

The Company issued 8,372,500 finder's warrants at the fair value of $541,000 pursuant to a private placement financing (Note 9 (a)).

## 12 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 September 30, 2014, no related loss provision has been made in these consolidated financial statements.