Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(expressed in Canadian Dollars)

March 28, 2014

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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Lupaka Gold Corp.

Consolidated Statements of Financial Position
As at December 31, 2013 and 2012

(expressed in thousands of Canadian Dollars)

	December 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	3,906	10,716
Trade and other receivables (Note 5)	222	432
Prepaid expenses and deposits	151	152
	4,279	11,300
Non-current assets		
Investment in Southern Legacy Minerals Inc. (Note 7)	904	2,510
Equipment (Note 6)	669	1,003
Mineral properties (Note 8)	27,254	27,967
Total assets	33,106	42,780
Liabilities		
Current liabilities		
Trade and other payables	1,406	1,019
Provision for reclamation	371	544
	1,777	1,563
Equity		
Common shares (Note 10(a))	56,380	55,782
Share purchase warrants (Note 10(b))	716	802
Contributed surplus	2,811	2,107
Share-based contingent consideration (Note 8)	–	598
Deficit	(29,321)	(19,539)
Accumulated other comprehensive income	743	1,467
Total equity	31,329	41,217
Total liabilities and equity	33,106	42,780

Nature of operations (Note 1)
Commitments and contingencies (Notes 8 and 16)

Approved and authorized for issue by the Board on March 26, 2014.

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, 2013 and 2012
(expressed in Thousands of Canadian Dollars, Except Share Data)

	2013 $	2012 $
Operating expenses		
Exploration		
Project administration	2,772	1,477
Camp, community relations and related costs	2,134	1,722
Technical reports, assays and related costs	320	461
Transportation	58	238
Reclamation	27	155
Consulting and professional fees	15	286
Drilling	–	1,136
	5,326	5,475
General and administration		
Salaries and benefits	1,094	1,174
Shareholder and investor relations	1,175	594
Professional and regulatory fees	414	434
Office and general	238	254
Travel	47	40
Corporate development	–	177
	2,968	2,673
Operating loss	8,294	8,148
Impairment loss on available-for-sale financial asset (Note 7)	1,657	1,476
Finance expense	–	22
Finance income	(60)	(58)
Foreign exchange (gain) loss	(109)	8
Loss for the year	9,782	9,596
Loss attributable to:		
Equity owners of the parent	9,782	9,568
Non-controlling interest	–	28
	9,782	9,596
Weighted average number of shares outstanding, basic and diluted	84,242,363	53,656,653
Loss per share, basic and diluted	$0.12	$0.18

Consolidated statements of comprehensive loss	2013 $	2012 $
Loss for the year	9,782	9,596
Items that may be subsequently reclassified to profit or loss		
Currency translation adjustment on foreign operations	724	(1,190)
Comprehensive loss	10,506	8,406
Comprehensive loss attributable to		
Equity owners of the parent	10,506	8,363
Non-controlling interest	–	43

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, 2013 and 2012
(expressed in Thousands of Canadian Dollars)

	2013 $	2012 $
Cash flows from (used in) operating activities		
Loss for the year	(9,782)	(9,596)
Adjustment for items not affecting cash:		
Foreign exchange loss on amount payable to non-controlling interest	–	7
Depreciation	350	128
Impairment loss on available-for-sale financial asset	1,657	1,476
Share-based compensation	618	854
Finance expense income, net	–	(36)
Write-down of equipment	89	26
Gain on sale of equipment	(7)	–
	(7,075)	(7,141)
Changes in non-cash working capital		
Trade and other receivables	210	(130)
Prepaid expenses and deposits	1	(26)
Due to related parties	–	(288)
Trade and other payables	387	(712)
Provision for reclamation	(173)	158
Finance income received	–	58
Net cash used in operating activities	(6,650)	(8,081)
Cash flows from (used in) investing activities		
Purchase of equipment	(107)	(309)
Purchase of available-for-sale financial asset	(52)	–
Sale of equipment	10	–
Cash acquired on acquisition of Andean American Gold Corp. (“AAG”)	–	13,502
Final payment for purchase of initial 60% interest in Lupaka Gold Peru S.A.C. (“LGP”) (Note 4)	–	(3,057)
Transaction costs on purchase of AAG	–	(770)
Net cash (used in) from investing activities	(149)	9,366
Cash flows from (used in) financing activities		
Purchase of non-controlling interest of LGP (Note 4)	–	(4,076)
Proceeds from exercise of share options	–	50
Net cash used in financing activities	–	(4,026)
Net decrease in cash and cash equivalents	(6,799)	(2,741)
Cash and cash equivalents - beginning of year	10,716	13,477
Effect of foreign exchange rate changes on cash and cash equivalents	(11)	(20)
Cash and cash equivalents - end of year	3,906	10,716

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2013 and 2012

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

	2013		2012	
	Number	**$**	**Number**	**$**
Common shares (Note 10(a))				
Balance – beginning of year	81,751,769	55,782	39,462,451	24,603
Shares issued (Note 8)	3,221,127	598	–	–
Return to treasury (Note 8)	(477,786)	–	–	–
Issued for acquisition of AAG (Notes 4 and 10 (a))	–	–	36,989,318	25,893
Issued for remaining interest in LGP	–	–	5,200,000	5,200
Options exercised	–	–	100,000	86
Balance – end of year	84,495,110	56,380	81,751,769	55,782
Share purchase warrants (Note 10 (b))				
Balance – beginning of year		802		802
Share purchase warrants expired		(86)		–
Balance – end of year		716		802
Contributed surplus (Note 10 (c))				
Balance – beginning of year		2,107		1,289
Share-based payment expense		618		854
Share purchase warrants expired		86		–
Options exercised		–		(36)
Balance – end of year		2,811		2,107
Share-based contingent consideration (Note 8)				
Balance – beginning of year		598		598
Shares issued (Note 8)		(598)		–
Balance – end of year		–		598
Deficit				
Balance – beginning of year		(19,539)		(6,202)
Purchase of non-controlling interest (Note 4)		–		(3,769)
Loss for the year – attributable to the shareholders of the Company		(9,782)		(9,568)
Balance – end of year		(29,321)		(19,539)
Accumulated other comprehensive income				
Balance – beginning of year		1,467		262
Currency translation adjustment on foreign operations		(724)		1,205
Balance – end of year		743		1,467
Non-controlling interest				
Balance – beginning of year		–		5,758
Comprehensive loss for the year – attributable to the non-controlling interest		–		(43)
Acquisition of non-controlling interest by the Company		–		(5,715)
Balance – end of year		–		–
		31,329		41,217

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. 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, and a 17% ownership interest in Southern Legacy Minerals Inc. ("Southern Legacy") – see Notes 4 and 7.

Lupaka's registered office is located at 700 – 595 Howe Street, Vancouver, BC, V6C 2T5 and its records office is located at 428 – 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. Lupaka's share purchase warrants trade on the TSX under the symbol LPK.WT.

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.

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 International Financial Reporting Standards ("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, 2014.

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:

- 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)

2.4 Non-controlling interest

Effective January 2012, Lupaka acquired the remaining 40% of LGP. Prior to this acquisition, non-controlling interest represented equity interests in LGP owned by the non-controlling shareholders of LGP. The share of net assets of LGP attributable to non-controlling interest is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Lupaka’s ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

2.5 Significant accounting judgements and key sources of estimate uncertainty

In preparing these consolidated financial statements, the Company is required to make judgements, 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 judgements, 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 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 16.

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.

During the years ended December 31, 2013 and 2012, the Company had related party transactions (see Note 9 (a)) 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. ("Gordann"), 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.

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. 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 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, 2013, 15,718,517 (December 31, 2012 – 14,427,642) 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 neither accounting nor 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

On January 1, 2013, The Company adopted the following new and revised standards:

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

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

In November 2013, the IASB removed the mandatory effective date of IFRS 9, Financial Instruments ("IFRS 9"), which previously was effective January 1, 2015. Adoption of IFRS 9 could change the classification and measurement of financial assets and the extent of the effects of IFRS 9 on the consolidated financial statements has not been determined.

In May 2013, the IASB published IFRS Interpretations Committee Interpretation 21 ("IFRIC 21"), Levies, which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and those where the timing and amount of the levy is certain. IFRIC 21 does not include income taxes (covered under IAS 12, Income Taxes), fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. Adoption of IFRIC 21 is not expected to have a significant effect on the consolidated financial statements of the Company.

In addition during 2013 there have been amendments and clarification to existing standards, including IAS 1, Presentation of Financial Statements, which are not expected to have a significant effect on the consolidated financial statements of the Company. The amendments to IAS 1 are not effective to the Company until January 1, 2014.

4 Acquisitions

Purchase of remaining interest in LGP

Effective January 19, 2012, the Company acquired the remaining 40% interest in LGP. As a result, the Company now owns 100% of the Crucero Gold Project ("Crucero"). The Company acquired the remaining 40% interest in LGP from the non-controlling shareholders of LGP for a total purchase price of $4,075,600 (US $4,000,000) in cash and 5,200,000 common shares of the Company (with a fair value of $1.00 per share – Note 10 (a)). As part of the closing of the acquisition, the Company made an early payment of the final $3,057,000 (US $3,000,000) that was required to be paid by July 15, 2012 to complete the Company's acquisition of its initial 60% interest in LGP.

For accounting purposes, the initial acquisition of 60% of LGP was considered a purchase of assets. The Company's purchase of the remaining 40% of the shares of LGP has been accounted for as an equity transaction with the excess in fair value of consideration, less equity of the non-controlling interest, allocated to deficit.

The following is a summary of the LGP-related purchase price components, and the allocation of equity acquired on January 19, 2012:

In thousands of dollars	Purchase price $
Cash consideration paid	4,076
Fair value attributed to early payment	208
Fair value of 5,200,000 common shares issued	5,200
Non-controlling interest as at January 19, 2012	(5,715)
Charged to deficit	3,769

Acquisition of AAG

Effective October 1, 2012, the Company completed the previously announced Plan of Arrangement with AAG (the "Closing") whereby each AAG common share was exchanged for 0.245 common shares of Lupaka. The acquisition of AAG has been accounted for as a purchase of assets.

All AAG options outstanding at the Closing ("AAG Options") were deemed to be exchanged for stock options of Lupaka, issued under the Lupaka Stock Option Plan, on the basis of 0.245 of a Lupaka common share for one AAG common share, at an exercise price per Lupaka common share determined by dividing the exercise price per AAG common share subject to such AAG Option by 0.245.

All AAG share purchase warrants outstanding at the Closing ("AAG Warrants") were maintained by Lupaka, in accordance with the terms and conditions of the original AAG Warrants, in a number determined on the basis of 0.245 of a Lupaka common share for one AAG common share, at an

exercise price per Lupaka common share determined by dividing the exercise price per AAG common share subject to such AAG Warrant by 0.245.

The purchase price, totalling $26.7 million, reflects the following:

i) The fair value of the Lupaka shares issued based on the issuance of 36,989,318 common shares of Lupaka at Cdn$0.70 per share, which represents the market price of the common shares on the date of issuance; and

ii) Lupaka's transaction costs totalling $770,288.

The following is a summary of the purchase price components, and the allocation of the net assets acquired on October 1, 2012:

In thousands of dollars	Purchase price $
36,989,318 common shares of Lupaka	25,893
Transaction costs	770
Purchase price	26,663
Net assets acquired:	
Cash and cash equivalents	13,502
Other current assets	182
Investment in Southern Legacy	3,986
Plant and equipment	583
Current liabilities	(1,842)
Mineral properties	10,252
Net assets acquired	26,663

The fair value of the investment in Southern Legacy was based on the publicly-traded market value as at the Company's date of acquisition of AAG.

5 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.

6 Equipment

In thousands of dollars	Vehicles and field equipment $	Office equipment and furniture $	Total $
Cost			
Balance as at December 31, 2011	233	72	305
Acquired on acquisition of AAG	521	61	582
Additions	290	19	309
Loss on write-off of vehicle	(26)	–	(26)
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
Accumulated depreciation			
Balance as at December 31, 2011	31	8	39
Depreciation	93	35	128
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
Carrying amounts			
Balance as at December 31, 2011	202	64	266
Balance as at December 31, 2012	894	109	1,003
Balance as at December 31, 2013	609	60	669

During the year ended December 31, 2013, $337,000 (2012 – $117,000) of depreciation was included in project administration and $13,000 (2012 – $11,000) 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 $247,000 as at December 31, 2013 for $250,000.

7 Investment in Southern Legacy Minerals Inc. ("Southern Legacy")

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 classifies 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 owns a total of 10,049,602 common shares in Southern Legacy, representing approximately 17% of the issued and outstanding ownership shares of Southern Legacy.

As at December 31, 2013, the aggregate fair market value of this investment was $904,000 ($2,510,000 – December 31, 2012), as indicated by the closing price of the shares as quoted by the TSX Venture Exchange (under the symbol, “LCY”), for which the Company recorded impairment losses of $1,657,000 ($1,476,000 – 2012) during the year. Southern Legacy’s common shares also trade on the BVL.

8 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 owned 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 $10,000,000. Of the total consideration, US $7,000,000 was paid prior to December 31, 2011, with the remaining US $3,000,000 payable on July 15, 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.

As part of the closing of the Company’s acquisition of the remaining 40% interest in LGP (see Note 4), the Company made an early payment of the final $3,057,000 (US $3,000,000) that was otherwise required to be paid by July 15, 2012 in order to complete the Company's acquisition of its existing 60% interest in LGP. The carrying value of this final payment was $2,819,000 on December 31, 2011, as the original carrying value of this purchase obligation was calculated by using a discounted cash flow model, which uses assumptions concerning the timing of estimated future cash flows and credit-adjusted discount rates.

The carrying value of Crucero as at December 31, 2013 is $16,673,000 ($17,114,000 – December 31, 2012). The change in carrying value of $441,000 for the year ended December 31, 2013 is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2012 to December 31, 2013.

Invicta Gold Project (“Invicta”)
In connection with the Company’s acquisition of AAG (Note 4), the Company acquired Invicta, located in the Lima Region of central Peru, which comprise forty-six concession and petition claims that are owned by IMC and which make up Invicta.

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, 2013, US$700,000 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 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.

The carrying value of the Invicta mineral property as at December 31, 2013 is $10,581,000 ($10,853,000 – December 31, 2012). The change in carrying value of $272,000 for the year ended December 31, 2013 is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from December 31, 2012 to December 31, 2013.

Josnitoro Gold Project (“Josnitoro”)
On November 26, 2013, the Company announced that it had entered into a memorandum of understanding (“MOU”) with Compañía Minera Ares S.A.C. and Minera del Suroeste S.A.C. (indirect subsidiaries of Hochschild Mining plc) with regards to the execution of a definitive agreement that will allow the Company to earn-in to a 65% interest on Josnitoro in Southern Peru. Josnitoro is an exploration stage gold and copper project in the Department of Apurimac which comprises nineteen concessions.

Pursuant to the MOU, 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 obtain the required permits and licenses within 2 years of the execution of a definitive agreement, so as to subsequently conduct a minimum 10,000 meter diamond drill program and complete a preliminary economic assessment (“PEA”) within a total 6-year period. In the event that the Company cannot 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 will 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 $2.0 million payment. If Hochschild elects to claw-back, they must notify the Company within 90 days of delivery of the PEA.

If Hochschild does not exercise its claw-back rights and retains its 35% JV 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 $10.5 million in cash.

Management projects that the costs of meeting the earn-in requirements will be approximately $300,000 per year for the first two years, $3.0 million for drilling 10,000 meters and $0.3 million to prepare a PEA.

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

9 Related party transactions

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

(a) Related party expenditures

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 as below:

Nature of Transaction *In thousands of dollars*	Related Party	2013 $	2012 $
Shareholder and investor relations	S	140	120
Technical reports	S	4	9
		144	129

(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	2013 $	2012 $
Salaries and benefits	929	841
Share-based compensation	321	439
Total key management compensation	1,250	1,280

(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, 2013, there was no amount payable to or receivable from related parties.

10 Equity

a) Common shares

Authorized: unlimited with no par value.

In connection with the acquisition of 100% of AAG's outstanding shares on October 1, 2012, the Company issued 36,989,318 common shares of Lupaka Gold (valued at $0.70 per share, which represents the market price of the common shares on the date of issuance) to the former shareholders of AAG – see Note 4.

In connection with the acquisition of the remaining shares of LGP on January 19, 2012, the Company issued 5,200,000 common shares of Lupaka Gold (valued at $1.00 per share) to the former non-controlling shareholders of LGP – see Note 4.

b) Share purchase warrants

	Weighted average exercise price $	Number of share purchase warrants
Balance – beginning of year	2.22	8,079,167
Expired	2.25	(800,000)
Balance – end of year	2.22	7,279,167

The following table summarizes information about the share purchase warrants outstanding and exercisable at December 31, 2013:

Expiry date	Number of share purchase warrants	Exercise prices $
June 28, 2014	6,666,667	2.25
February 12, 2015	612,500	1.87
	7,279,167	2.22

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, 2013 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:

	2013		2012	
	Number of share options	Weighted average exercise price $	Number of share options	Weighted average exercise price $
Options outstanding – beginning of year	6,348,475	0.86	3,697,000	0.73
Granted	3,675,000	0.34	1,980,000	0.53
Forfeited	(1,144,350)	0.94	(173,000)	1.33
Cancelled	(434,875)	1.93	–	–
AAG options forfeited	–	–	(525,525)	2.16
Exercised	–	–	(100,000)	0.50
Acquired on acquisition of AAG (Note 4)	–	–	1,678,250	2.22
AAG options expired	(4,900)	1.63	(208,250)	2.90
Options outstanding – end of year	8,439,350	0.57	6,348,475	0.86
Options exercisable – end of year	5,855,600	0.67	4,708,475	0.96

No options were exercised in 2013. The weighted average price of Lupaka's shares on the dates of exercise in 2012 was $1.11.
The weighted average fair value of the share options granted in the year was estimated to be $0.14 (2012 – $0. 39) per option at the grant dates using the Black-Scholes option-pricing model and based on the following weighted average assumptions:

	2013	2012
Weighted average market price ($)	0.26	0.53
Weighted average exercise price ($)	0.34	0.53
Dividend yield	–	–
Risk free interest rate (%)	1.22	1.22
Expected life (years)	2.9	3.9
Expected volatility (%)	94	109
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 $618,000 have been recorded for the year ended December 31, 2013 (December 31, 2012 – $854,000), allocated as follows:

In thousands of dollars	2013 $	2012 $
Salaries and benefits	330	439
Shareholder and investor relations	155	121
Project administration	111	217
Camp and related	13	61
Consulting and other	9	16
Total share-based compensation	618	854

The following table summarizes information about share options outstanding and exercisable at December 31, 2013:

		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	1.5	437,500	0.34	1.4
2015	0.50 – 0.75	2,500,000	0.54	1.7	2,250,000	0.52	1.8
2015	1.71 – 4.08	68,600	1.96	1.4	68,600	1.96	1.4
2016	0.50 – 1.21	1,188,000	1.11	2.7	1,188,000	1.11	2.7
2016	2.00 – 3.22	232,750	2.32	2.6	232,750	2.32	2.6
2017	0.45	1,275,000	0.45	3.9	968,750	0.45	3.9
2018	0.20 – 0.43	2,425,000	0.27	4.7	710,000	0.28	4.6
	0.20 – 4.08	8,439,350	0.57	3.0	5,855,600	0.67	2.7

11 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2013 and 2012 are as follows:

In thousands of dollars	2013 $	2012 $
Deferred income tax assets:		
Non-capital loss carry-forwards, net	2,670	4,272
Property and equipment	7,347	6,007
Share issuance costs	304	441
Reclamation obligation	125	186
Southern Legacy investment	407	184
Other	41	38
Deferred income tax assets, net	10,894	11,128
Unrecognized tax assets	(10,894)	(11,128)
	–	–

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	2013 $	2012 $
Loss for the year before income tax expense (recovery)	(9,782)	(9,596)
Average statutory rate	25.75%	25.00%
Expected income tax recovery at statutory rates	(2,518)	(2,399)
Non-deductible expenses	66	569
Effect of different tax rates in foreign jurisdictions	(547)	(230)
Difference in prior year tax returns	2,625	(269)
Expiration of tax losses	325	96
Difference in future and current tax rates	136	185
Impact of difference in functional and tax currencies	209	(390)
Amounts charged to equity	(62)	86
Unrecognized tax assets	(234)	2,352
Income tax expense	–	–

The Canadian statutory tax rate increased from 25.00% to 25.75% 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 $7.5 million (2012 - $16.5 million) and $3.3 million (2012 - $0.5 million), respectively. The Canadian losses, if not utilized, will expire over 2026 through 2033, while the Peruvian losses, if not utilized, will expire over 2014 through 2017. 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.

12 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	2013 $	2012 $
Loss		
Canada	4,455	4,122
Peru	5,327	5,474
	9,782	9,596

In thousands of dollars	December 31, 2013 $	December 31, 2012 $
Total assets		
Canada	4,882	13,414
Peru	28,224	29,366
	33,106	42,780

13 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 (2013 – $31,329,000; 2012 – $41,217,000).

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.

14 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. The Company manages its liquidity risk through the management of its capital structure and assets. At December 31, 2013 and 2012, the Company's contractual obligations (undiscounted) were as follows:

In thousands of dollars	December 31, 2013 $	December 31, 2012 $
Trade and other payables	1,406	1,019
Provision for reclamation	371	544
Total	1,777	1,563

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, 2013 $	December 31, 2012 $
Cash and cash equivalents	1,290	1,359
Current liabilities	(434)	(166)

Based on the above net exposure as at December 31, 2013, 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 +/- $91,000 (2012 – $119,000) in the Company's net loss or income.

Price risk
The Company has exposure to fluctuations in the market prices of its financial instruments, specifically the investment in Southern Legacy. Historical movements and volatilities in market variables may significantly increase or decrease the value of the Company's investment in Southern Legacy. Based on the Company's carrying value of its investment in Southern Legacy as at December 31, 2013, a 10% fluctuation in its market value would result in an increase or decrease of approximately $90,000 in the Company's comprehensive loss.

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, 2013, 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 investment in Southern Legacy is classified as Level 1 of the fair value hierarchy.

15 Supplemental cash flow information

Cash and cash equivalents comprise the following:

In thousands of dollars	December 31, 2013 $	December 31, 2012 $
Cash on hand and balances with banks	305	3,220
Cash equivalents	3,601	7,496
	3,906	10,716

At December 31, 2013, 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.

In 2012, the Company issued 5,200,000 common shares at a total fair value of $5,200,000 to acquire the remaining 40% interest in LGP (Note 4) and 36,989,318 common shares at a total fair value of $25,892,523 to acquire AAG (Note 4).

In 2013, the Company issued a net total of 2,743,341 common shares at a total fair value of $598,000 to K-Rok (Note 8).

16 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, 2013, no loss provision has been made in these consolidated financial statements.