Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2012 and 2011
(expressed in Canadian Dollars)

March 27, 2013

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, 2012 and December 31, 2011 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lupaka Gold Corp. and its subsidiaries as at December 31, 2012 and December 31, 2011 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, 2012 and 2011

(expressed in Canadian Dollars)

	December 31, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents (Note 14)	10,716,267	13,477,024
Trade and other receivables (Note 5)	432,038	163,769
Prepaid expenses and deposits	151,726	81,973
	11,300,031	13,722,766
Non-current assets		
Investment in Southern Legacy Minerals Inc. (Note 7)	2,509,524	–
Equipment (Note 6)	1,003,470	266,417
Mineral properties (Note 8)	27,967,397	16,504,191
Total assets	42,780,422	30,493,374
Liabilities		
Current liabilities		
Trade and other payables	1,019,335	234,016
Provision for reclamation	543,822	41,684
Due to non-controlling shareholders (Note 8)	–	2,819,016
Due to related parties (Note 9(c))	–	222,248
	1,563,157	3,316,964
Non-current liabilities		
Due to related parties (Note 9(c))	–	66,105
	1,563,157	3,383,069
Equity		
Common shares (Note 10(a))	55,781,944	24,602,786
Share purchase warrants (Note 10(b))	801,809	801,809
Share options (Note 10(c))	2,107,340	1,289,511
Share-based contingent consideration (Note 8)	598,045	598,045
Deficit	(19,539,420)	(6,202,525)
Accumulated other comprehensive income	1,467,547	262,442
Total equity attributable to equity owners of the parent	41,217,265	21,352,068
Non-controlling interest	–	5,758,237
Total equity	41,217,265	27,110,305
Total liabilities and equity	42,780,422	30,493,374

Commitments and contingencies (Notes 8 and 16)

Approved and authorized for issue by the Board on March 27, 2013.

signed " Eric Edwards"	*signed "John Graf"*
Director	Director

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

Lupaka Gold Corp.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2012 and 2011

(expressed in Canadian Dollars)

	2012 $	2011 $
Operating expenses		
Exploration		
Camp and related costs	1,721,893	608,711
Project administration	1,477,253	577,705
Drilling	1,136,420	1,185,021
Technical reports and assays	460,465	331,953
Consulting and professional fees	285,791	82,090
Transportation	238,178	123,397
Reclamation	154,504	44,248
	5,474,504	2,953,125
General and administration		
Salaries and benefits	1,174,051	1,095,616
Shareholder and investor relations	594,448	452,201
Professional and regulatory fees	433,633	330,411
Office and general	253,738	187,477
Corporate development	176,991	–
Travel	40,119	89,621
	2,672,980	2,155,326
Operating loss	8,147,484	5,108,451
Impairment loss on available-for-sale financial asset (Note 7)	1,476,189	–
Finance expense – accretion (Note 4)	22,381	658,220
Finance income	(58,294)	(82,995)
Foreign exchange loss (gain)	8,453	(148,894)
Loss for the year	9,596,213	5,534,782
Loss attributable to:		
Equity owners of the parent	9,568,141	4,558,673
Non-controlling interest	28,072	976,109
	9,596,213	5,534,782
Weighted average number of shares outstanding, basic and diluted	53,656,653	32,547,491
Loss per share, basic and diluted	$0.18	$0.14

Consolidated statements of comprehensive loss

	2012 $	2011 $
Loss for the year	9,596,213	5,534,782
Currency translation adjustment on foreign operations	(1,190,242)	(426,095)
Comprehensive loss	8,405,971	5,108,687
Comprehensive loss attributable to:		
Equity owners of the parent	8,363,036	4,303,017
Non-controlling interest	42,935	805,670

Lupaka Gold Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2012 and 2011

(expressed in Canadian Dollars)

	2012 $	2011 $
Cash flows from (used in) operating activities		
Loss for the year	(9,596,213)	(5,534,782)
Adjustment for items not affecting cash:		
Foreign exchange loss (gain) on amount payable to non-controlling interest	6,848	(29,467)
Depreciation	127,846	33,988
Impairment loss on available-for-sale financial asset	1,476,189	–
Share-based compensation	854,464	971,986
Finance expense (income), net	(35,913)	575,225
Loss on write-off of vehicle	26,206	
Drilling services provided by non-controlling shareholders	–	414,242
Salaries and fees paid in shares	–	430,008
	(7,140,573)	(3,138,800)
Changes in non-cash working capital		
Trade and other receivables	(130,238)	1,015
Prepaid expenses and deposits	(25,644)	(38,597)
Due to related parties	(288,353)	50,000
Trade and other payables	(712,007)	(336,076)
Provision for reclamation	157,819	41,684
Finance income received	58,294	82,995
Net cash used in operating activities	(8,080,702)	(3,337,779)
Cash flows from (used in) investing activities		
Cash acquired on acquisition of Andean American Gold Corp. (“AAG”)	13,501,866	–
Final payment for purchase of initial 60% interest in Minera Pacacorral S.A.C. (“MP”) (Note 4)	(3,056,700)	(2,885,700)
Transaction costs on purchase of AAG	(770,288)	–
Purchase of equipment	(308,816)	(225,888)
Net cash from (used in) investing activities	9,366,062	(3,111,588)
Cash flows (used in) from financing activities		
Purchase of non-controlling interest of MP (Note 4)	(4,075,600)	–
Proceeds from exercise of options	50,000	–
Net cash proceeds of initial public offering	–	17,983,436
Issue of special warrants	–	1,852,500
Contributions from non-controlling shareholders	–	23,740
Net cash from (used in) financing activities	(4,025,600)	19,859,676
Net increase (decrease) in cash and cash equivalents	(2,740,240)	13,410,309
Cash and cash equivalents - beginning of year	13,477,024	140,431
Effect of foreign exchange rate changes on cash and cash equivalents	(20,517)	(73,715)
Cash and cash equivalents - end of year	10,716,267	13,477,024

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2012 and 2011

(expressed in Canadian Dollars)

	2012		2011	
	Number	$	Number	$
Common shares (Note 10(a))				
Balance – beginning of year	39,462,451	24,602,786	8,051,000	253,051
Issued for acquisition of AAG (Notes 4 and 10)	36,989,318	25,892,523	–	–
Issued for remaining interest in MP	5,200,000	5,200,000		
Exercise of options	100,000	50,000	–	–
Fair value of options exercised	–	36,635	–	–
Issued pursuant to the IPO	–	–	13,333,334	17,181,627
Issued for payment of salaries and consulting fees upon IPO	–	–	298,617	430,008
Deemed exercise of special warrants upon IPO	–	–	17,779,500	6,738,100
Balance – end of year	81,751,769	55,781,944	39,462,451	24,602,786
Share purchase warrants (Note 10 (b))				
Balance – beginning of year	7,466,667	801,809	–	–
Acquired on acquisition of AAG	612,500	–	–	–
Issued pursuant to the IPO	–	–	7,466,667	801,809
Balance – end of year	8,079,167	801,809	7,466,667	801,809
Special warrants				
Balance – beginning of year	–	–	15,610,000	4,568,600
Issued for cash	–	–	1,852,500	1,852,500
Issued for cash (received in 2010)	–	–	317,000	317,000
Issued for debt repayment	–	–	–	–
Deemed exercise of special warrants upon IPO	–	–	(17,779,500)	(6,738,100)
Balance – end of year	–	–	–	–
Share options (Note 10 (c))				
Balance – beginning of year		1,289,511		317,525
Share-based payment expense		854,464		971,986
Fair value of options exercised		(36,635)		–
Balance – end of year		2,107,340		1,289,511
Share-based contingent consideration (Note 8)				
Balance – beginning and end of year		598,045		598,045
Deficit				
Balance – beginning of year		(6,202,525)		(1,643,852)
Purchase of non-controlling interest (Note 4)		(3,768,754)		–
Loss for the year – attributable to the shareholders of the Company		(9,568,141)		(4,558,673)
Balance – end of year		(19,539,420)		(6,202,525)
Accumulated other comprehensive income				
Balance – beginning of year		262,442		6,785
Currency translation adjustment on foreign operations		1,205,105		255,657
Balance – end of year		1,467,547		262,442
Non-controlling interest				
Balance – beginning of year		5,758,237		6,115,487
Comprehensive loss for the year – attributable to the non-controlling interest		(42,935)		(805,670)
Contributions from non-controlling shareholders		–		448,420
Acquisition of non-controlling interest by the Company		(5,715,302)		–
Balance – end of year		–		5,758,237
		41,217,265		27,110,305

1 Nature of operations

Lupaka Gold Corp. ("Lupaka") is incorporated in Canada with limited liability 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 Minera Pacacorral S.A.C. ("MP") 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, as well as 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 on the Toronto Stock Exchange ("TSX") and on the Borsa de Valores de Lima ("BVL", otherwise known as the Lima Stock Exchange) under the symbol LPK, and its share purchase warrants trade on the TSX under the symbol LPK.WT.

Collectively, Lupaka, MP 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 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 27, 2013.

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 (inactive)
- MP, 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 MP. Prior to this acquisition, non-controlling interest represented equity interests in MP owned by the non-controlling shareholders of MP. The share of net assets of MP 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 estimates, assumptions and judgements

In preparing these 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 judgements 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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of mineral properties – the carrying value of the Company's mineral properties are 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. The recoverable amount of an asset is measured at fair value less costs to sell.

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 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, 2012 and 2011, the Company had related party transactions (see Note 9 (a)) with K-Rok Minerals Inc., which is owned 60% by ABE Industries Inc. ("ABE"), 35% by Havilah Holdings Inc. ("Havilah") and 5% by Javier Garcia, a consultant to the Company. 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. During 2011, prior to the acquisition of the remaining 40% of MP, the Company had related party transactions with private companies owned by the non-controlling shareholders of MP.

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 MP, 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 or valuation where items are re-measured. 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) 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 operations 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 original maturities of one year or less.

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, acquired interests in production, development and exploration stage properties representing the fair value at the time they were acquired. Mineral properties include the capitalized costs of associated mineral properties after acquisition of the land. These include costs incurred during the development of mineral properties 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 cash generating unit ("CGU") to which the asset belongs. The Company has determined that it has one CGU. 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 that a prolonged period 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 respectively, 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 in loss.

Financial assets and liabilities

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, investment in Southern Legacy, trade and other payables, provision for reclamation and amounts due to non-controlling shareholders and to related parties.

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, which includes transaction costs. 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 designated 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, provision for reclamation 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, either directly or through the use of an allowance account 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 and special warrants 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 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. 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.

The cash subscribed for the shares issued when the options are exercised and the fair value of the options exercised is credited to share capital, net of any directly attributable transaction costs.

No expense is recognized for awards that do not ultimately vest.

3.12 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 diluted. 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, 2012, 14,427,642 (December 31, 2011 – 11,163,667) 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.

3.13 Income taxes

Tax expense is comprised of current and deferred tax. Tax is recognized in the consolidated statement of 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.

3.14 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.

3.15 New standards and interpretations

In November 2009, the IASB issued IFRS 9, Financial Instruments, which becomes effective for annual periods beginning on or after January 1, 2015.

In May 2011, the IASB issued the following standards: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13"), and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

None of these are expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments ("IFRS 9"), which becomes mandatory for the Company's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The extent of the effects of IFRS 9 on the consolidated financial statements has not been determined.

IFRS 9 – Financial Instruments

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated as fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 – Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non- monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for the fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. Both of the amended standards are not applicable until January 1, 2013 but are available for early adoption.

(expressed in Canadian Dollars)

4 Acquisitions

Purchase of remaining interest in MP

Effective January 19, 2012, the Company acquired the remaining 40% interest in MP. As a result, the Company now owns 100% of the Crucero Gold Project ("Crucero"). The Company acquired the remaining 40% interest in MP from the non-controlling shareholders of MP 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 $3,056,700 (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 MP.

For accounting purposes, the initial acquisition of 60% of MP was considered a purchase of assets. The Company's purchase of the remaining 40% of the shares of MP 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 MP-related purchase price components, and the allocation of equity acquired on January 19, 2012:

	Purchase price $
Cash consideration paid	4,075,600
Fair value attributed to early payment	208,456
Fair value of 5,200,000 common shares issued	5,200,000
Non-controlling interest as at January 19, 2012	(5,715,302)
Charged to deficit	3,768,754

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.

(expressed in Canadian Dollars)

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:

	Purchase price $
36,989,318 common shares of Lupaka	25,892,523
Transaction costs	770,288
Purchase price	26,662,811
Net assets acquired:	
Cash and cash equivalents	13,501,866
Other current assets	182,141
Investment in Southern Legacy Minerals Inc.	3,985,714
Plant & equipment	582,289
Current liabilities	(1,841,644)
Mineral properties	10,252,445
Net assets acquired	26,662,811

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.

(expressed in Canadian Dollars)

6 Equipment

	Vehicles and field equipment $	Office equipment and furniture $	Total $
Cost			
Balance as at December 31, 2011	233,599	71,816	305,415
Acquired on acquisition of AAG	520,829	61,460	582,289
Additions	289,753	19,063	308,816
Loss on write-off of vehicle	(26,206)	–	(26,206)
Balance as at December 31, 2012	1,017,975	152,339	1,170,314
Accumulated depreciation			
Balance as at December 31, 2011	30,925	8,073	38,998
Depreciation	92,454	35,392	127,846
Balance as at December 31, 2012	123,379	43,465	166,844
Carrying amounts			
Balance as at December 31, 2011	202,674	63,743	266,417
Balance as at December 31, 2012	894,596	108,874	1,003,470

During the year ended December 31, 2012, $116,479 (2011 – $29,925) of depreciation was included in project administration and $11,367 (2011 – $4,063) of depreciation was included in office and general.

7 Investment in Southern Legacy Minerals Inc.

As a result of the AAG acquisition, the Company owns 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 $3,985,714. As at December 31, 2012, the aggregate fair market value of this investment, as quoted by the TSX Venture Exchange, was $2,509,524, for which the Company has recorded an impairment loss of $1,476,189 for the year ended December 31, 2012 in other operating expenses. Southern Legacy's common shares also trade on the BVL.

8 Mineral properties

The Company's mineral properties are comprised of nine concession and petition claims covering approximately 5,500 hectares that are owned by MP and which make up the Crucero Gold Project ("Crucero") located in southeast Peru; and forty-eight concession and petition claims covering approximately 36,000 hectares that are owned by Invicta and which make up the Invicta Project located in northwest Peru.

Crucero Gold Project

The Crucero concessions are comprised of: four 100%-owned mining concessions (which are not subject to any royalty interest); 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); and two petition-stage claims for mining concessions that are in process (which are not subject to any royalty interest).

To acquire its initial 60% ownership of MP, 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 "MP Purchase Agreement"), pursuant to which the Company assumed the rights and obligations of K-Rok.

Under the MP Purchase Agreement, the vendors of MP sold to the Company 60% of the issued and outstanding shares of MP 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 consists 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 either: (A) the first to occur of (i) any resource estimate related to completion of a pre-feasibility study, and (ii) an updated resource estimate obtained pursuant to the MP Purchase Agreement prior to completion of a sale by the Company of its shares in MP or a sale by MP of all or substantially all of its interests in the six mining concessions that form part of Crucero; or (B) if neither (i) nor (ii) has occurred by December 31, 2012, an updated resource estimate based on all exploration completed on the six mining concessions at that time.

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 $598,045 was included as a cost of the initial acquisition of the Crucero mineral properties.

Based on the results of a February 2013 resource update and pursuant to the terms of the Assignment and Assumption Agreement, Lupaka issued 3,221,127 common shares to K-Rok on March 22, 2013, subject to a four month hold period.

During the period ended March 31, 2012, and as part of the closing of the Company's acquisition of the remaining 40% interest in MP (see Note 4), the Company made an early payment of the final $3,056,700 (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 MP. The carrying value of this final payment was $2,819,016 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, 2012 is $17,113,995 ($16,504,191 – December 31, 2011). The change in carrying value of $609,804 for the year ended December 31, 2012 is due to changes in foreign currency translation rates between the Canadian Dollar and Peruvian Nuevo Sol which occurred from December 31, 2011 to December 31, 2012.

Invicta Project

In connection with the Company's acquisition of AAG (Note 4), the Company acquired the Invicta Project, located in the province of Huaura in the department of Lima. The Invicta Project, originally acquired by AAG by way of an October 2005 option agreement with Minera Barrick Misquichilca ("Barrick") that was exercised in 2007, requires the Company to pay Barrick a 1% Net Smelter Royalty ("NSR") capped at US$1 million. The agreement 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 date US$600,000 has been paid in advance royalties. In addition to the advanced 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.

In terms of the option agreement reached with Barrick Gold Corporation ("ABX"), the Company is required to provide ABX with a copy of any completed Invicta Feasibility Study, and ABX's subsidiary 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 the Invicta Project, ABX, through its subsidiary Barrick, has the option to exercise a back-in-right. Should they 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 the Invicta Project. In addition, Barrick's subsidiary has a 30 day calendar day right of first refusal in the event that the Company wishes to transfer part or all of its shares and mining rights of the properties pursuant to the October 17, 2005 option agreement and subsequent exercise of the option agreement on December 3, 2008 (the "ROFR"). No ROFR was applicable to the Company's acquisition of AAG.

(expressed in Canadian Dollars)

The carrying value of the Invicta Project mineral property as at December 31, 2012 is $10,853,402 ($10,252,445 – October 1, 2012). The change in carrying value of $600,957 for the period ended December 31, 2012 is due to changes in foreign currency translation rates that occurred between the Canadian Dollar and Peruvian Nuevo Sol from October 1, 2012 to December 31, 2012.

9 Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. 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 (“S”), a director (“D”) of the Company, and the non-controlling shareholders of MP (“NCS”), as below:

Nature of Transaction	Related Party	2012 $	2011 $
Shareholder and investor relations	S	120,000	120,000
Project administration	S, D	60,417	178,355
Salaries and benefits	S, D	30,208	33,148
Technical reports	S	8,571	8,223
Drilling	NCS	–	955,590
Office and general	S	–	39,529
		219,196	1,334,845

(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:

	2012 $	2011 $
Salaries and benefits	841,169	376,236
Share-based compensation	439,092	514,364
Total key management compensation	1,280,261	890,600

(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.

There was $288,353 in amounts due to private companies controlled by non-controlling shareholders of MP as at December 31, 2011, including $222,248 which was fully paid in January 2012 and $64,669 which is due on March 31, 2013.

As at December 31, 2012, there were no amounts 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 MP 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 MP – see Note 4.

On June 28, 2011, the Company completed an Initial Public Offering ("IPO") of 13,333,334 units (the "Units") of the Company at a price of $1.50 per Unit for aggregate gross proceeds of $20,000,001. The Agents to the IPO received a cash commission equal to 6% ($1.2 million) of the gross proceeds of the Offering, as well as 800,000 common share purchase warrants ("Broker Warrants", see "Share purchase warrants" below). In connection with the IPO, the Company incurred cash transaction costs of $2,016,565.

Each Unit consisted of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, an "IPO Warrant"). Each IPO Warrant is exercisable to purchase an additional common share of the Company until June 28, 2014 at a price of $2.25 per share. The Company allocated $1.44 of the issue price for the issue of each common share and $0.06 of the issue price for the issue of each one-half common share purchase warrant.

In aggregate, the Company issued 13,333,334 common shares and 6,666,667 IPO Warrants pursuant to the IPO.

In connection with the IPO, there were 16,087,717 common shares held in escrow, nil special warrants and 1,500,000 common shares issuable upon the exercise of options, subject to the an escrow agreement. The escrow securities were released in equal tranches of 25% on the date of listing and then every six months thereafter. As at December 31, 2012 there were nil (December 31, 2011 – 8,043,589) common shares held in escrow and nil (December 31, 2011 –750,000) common shares issuable upon the exercise of options, subject to the escrow agreement.

(expressed in Canadian Dollars)

b) Share purchase warrants

	Weighted average exercise price $	Number of share purchase warrants	2012 $
Balance – beginning of year	$2.25	7,466,667	801,809
Acquired on acquisition of AAG	1.87	612,500	–
Balance – end of year	2.22	8,079,167	801,809

The Black-Scholes valuation model was used in estimating the price of the IPO and Broker Warrants. A significant assumption in the Black-Scholes model is an estimate for "volatility", which is usually based on historical trading price patterns for a company's shares. In the case of Lupaka, there was no trading history to derive a volatility figure. Upon consulting with the Company's investment bankers, it was determined that the market generally will not value new issues at higher than 30% to 40% volatilities. Based on this input, the Company chose 30%.

Using the following assumptions, the estimated value of a full warrant was calculated to be $0.12:

	IPO Warrants	Broker Warrants
Share price ($)	1.40	1.40
Warrant exercise price ($)	2.25	2.25
Dividend yield	–	–
Risk free interest rate (%)	3.0	3.0
Expected life (years)	3.0	2.0
Expected volatility (%)	30	30

The following table summarizes information about the share purchase warrants outstanding and exercisable at December 31, 2012:

Expiry date	Exercise prices $	Number of share purchase warrants	Exercise prices $
June 28, 2013	$2.25	800,000	2.25
June 28, 2014	2.25	6,666,667	2.25
February 12, 2015	1.87	612,500	1.87
		8,079,167	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. 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.

(expressed in Canadian Dollars)

Vesting terms will be determined for each grant individually, and the term of the option shall be for not less than one year and not more than 10 years from the date the option is granted.

The common shares issuable upon the exercise of the share options held by certain insiders of the Company were subject to escrow restrictions up until December 25, 2012.

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

	2012		2011	
	Number of share options	Weighted average exercise price $	Number of share options	Weighted average exercise price $
Options outstanding – beginning of year	3,697,000	0.73	2,000,000	0.50
Granted	1,980,000	0.53	1,697,000	0.98
Forfeited	(173,000)	1.33	–	–
Exercised	(100,000)	0.50	–	–
Acquired on acquisition of AAG (Note 4)	1,678,250	2.22	–	–
AAG options expired	(208,250)	2.90	–	–
AAG options forfeited	(525,525)	2.16	–	–
Options outstanding – end of year	6,348,475	0.86	3,697,000	0.73
Options exercisable – end of year	4,708,475	0.96	2,780,500	0.58

The weighted average price of Lupaka's shares on the dates of exercise in 2012 was $1.11. No options were exercised in 2011.

The weighted average fair value of the share options granted in the year was estimated to be $0.39 (2011 – $0.74) per option at the grant dates using the Black-Scholes option-pricing model and based on the following weighted average assumptions:

	2012	2011
Weighted average market price ($)	0.53	0.98
Weighted average exercise price ($)	0.53	1.01
Dividend yield	–	–
Risk free interest rate (%)	1.22	1.54
Expected life (years)	3.9	4.0
Expected volatility (%)	109	114
Pre-vest forfeiture rate (%)	5.0	3.6

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.

(expressed in Canadian Dollars)

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 $854,464 have been recorded for the year ended December 31, 2012 (December 31, 2011 – $971,986), allocated as follows:

	2012 $	2011 $
Salaries and benefits	439,365	577,002
Project administration	217,476	224,859
Camp and related	61,350	–
Shareholder and investor relations	120,748	142,251
Professional fees	–	20,342
Consulting and other	15,525	7,532
Total share-based compensation	854,464	971,986

The following table summarizes information about share options outstanding and exercisable at December 31, 2012:

		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)
2013	1.63	4,900	1.63	0.2	4,900	1.63	0.2
2014	1.59	61,250	1.59	1.9	61,250	1.59	1.9
2015	0.50	2,200,000	0.50	2.8	2,200,000	0.50	2.8
2015	1.71 – 4.08	222,950	2.08	2.5	222,950	2.08	2.5
2016	0.50 – 1.21	1,389,000	1.12	3.8	1,091,500	1.10	3.7
2016	2.00 – 3.63	655,375	2.17	3.6	655,375	2.17	3.6
2017	0.45 – 1.23	1,815,000	0.46	4.8	472,500	0.49	4.8
	0.45 – 4.08	6,348,475	0.86	3.7	4,708,475	0.96	3.3

d) Earnings/loss per share

Basic loss per share is calculated by dividing the loss of the Company by the weighted average number of common shares and special warrants issued during the period.

(expressed in Canadian Dollars)

11 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	2012 $	2011 $
Deferred income tax asset:		
Non-capital loss carry-forwards	4,283,080	535,776
Property and equipment	6,006,781	749,853
Share issuance costs	441,179	376,455
Reclamation obligation	185,710	–
Southern Legacy investment	184,524	–
Other	37,551	–
Deferred income tax liabilities:	–	–
Other	(10,509)	(47,048)
Deferred income tax assets, net	11,128,316	1,615,036
Deferred tax assets not recognized	(11,128,316)	(1,615,036)
	–	–

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:

	2012 $	2011 $
Loss for the year before income tax expense (recovery)	(9,596,213)	(5,534,782)
Average statutory rate	25.00%	26.50%
Expected income tax recovery at statutory rates	(2,399,054)	(1,466,717)
Non-deductible expenses	569,011	242,055
Effect of different tax rates in foreign jurisdictions	(230,231)	(86,456)
Difference in prior year tax returns	(269,095)	376,934
Expiration of tax losses	96,218	–
Difference in future and current tax rates	184,524	(479,981)
Impact of difference in functional and tax currencies	(389,764)	149,943
Amounts charged to equity	86,464	–
Deferred tax assets not recognized	2,351,927	1,264,222
Income tax expense (recovery)	–	–

The Canadian statutory tax rate decreased from 26.5% to 25% due to legislated changes.

b) Losses carried forward

The Company has available non-capital losses in Canada and Peru, for deduction against future taxable income, of approximately $16.5 million (2011 - $1.7 million) and $0.5 million (2011 - $0.4

(expressed in Canadian Dollars)

million), respectively. The Canadian losses, if not utilized, will expire through to 2032, while the Peruvian losses, if not utilized, will expire in through to 2015. Deferred income tax benefits which may arise as a result of these non-capital losses have been offset by deferred income tax assets not recognized in the entities where commercial production has not commenced.

The Company has the following non-capital losses for income tax purposes which may be used to reduce future taxable income in Canada and Peru:

	2012 $	2011 $
Non-capital loss carry forwards		
2013	1,300,241	–
2014	410,598	386,296
2015	68,499	–
2016 to 2025	–	–
2026	1,568,603	–
2027	943,928	–
2028	670,092	–
2029	3,606,630	356,000
2030	3,077,737	1,331,756
2031	3,206,707	–
2032	2,183,473	–
Indefinite	–	–
Balance – end of year	17,036,508	2,074,052

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:

	2012 $	2011 $
Loss		
Canada	4,121,709	2,557,773
Peru	5,474,504	2,977,009
	9,596,213	5,534,782

	December 31, 2012 $	December 31, 2011 $
Total assets		
Canada	13,414,179	13,599,346
Peru	29,366,243	16,894,028
	42,780,422	30,493,374

13 Capital management

The Company's objective when managing capital structure is to maintain statement of financial position strength 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 share capital (2012 – $55,781,944; 2011 – $24,602,786) and cash and cash equivalents (2012 - $10,716,267; 2011 – $13,477,024).

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 its current capital resources will be sufficient to carry out its exploration and development plans and operations through its current operating period. 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 risk, liquidity risk, and market risk, including foreign exchange risk, interest rate risk, and commodity price risk.

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. The Company's trade and other receivables consists of HST receivable due from the Government of Canada and IGV from the Government of Peru.

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 financial leverage. At December 31, 2012, the Company's contractual obligations (undiscounted) are as follows:

	Due in less than 1 year $
Trade and other payables	1,019,335
Provision for reclamation	543,822
Total	1,563,157

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 ("USD") and Peruvian Nuevo Soles ("PEN"):

	USD $	PEN S/.
Cash and cash equivalents	1,359,280	200,507
Trade and other receivables	–	497,464
Current liabilities	(165,577)	(2,820,321)

Based on the above net exposures as at December 31, 2012, and assuming that all other variables remain constant, a 10% appreciation (depreciation) of the Canadian Dollar against the US Dollar or Peruvian Nuevo Sol would result in an increase or decrease of approximately +/- $119,000 and +/-$83,000 respectively in the Company's net loss.

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, 2012, a 10% fluctuation in its market value would result in an increase or decrease of approximately $251,000 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, 2012, 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, trade and other payables and provision for reclamation 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.

(expressed in Canadian Dollars)

15 Supplemental cash flow information

Cash and cash equivalents comprise the following:

	December 31, 2012 $	December 31, 2011 $
Cash on hand and balances with banks	3,220,424	246,469
Short-term investments	7,495,843	13,230,555
	10,716,267	13,477,024

At December 31, 2012, the Company's short-term investments are invested in GIC's and premium investment savings accounts in place at two major 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 MP (Note 4) and 36,989,318 common shares at a total fair value of $25,892,523 to acquire AAG (Note 4).

In 2011, the Company issued 298,617 common shares, in lieu of cash, having a total fair value of $430,008 for payment of salaries and consulting fees.

16 Commitments and contingencies

AAG and its subsidiaries are being sued by an undisclosed person in Peru for calumny (making of false and defamatory statements to damage someone's reputation). This person is claiming for damages in the amount of 3,000,000 Soles (approximately US$1,100,000). The Company has entered a defence to the action, and management is of the opinion that the claim is without merit. Defence of the claim is in the preliminary stages and, while no probable outcome can be determined at this time, management believes the Company will be successful in defending this claim. Accordingly, no estimated loss provision has been made in these consolidated financial statements.

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 most of 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, 2012, no loss provision has been made in these consolidated financial statements.