Lupaka Gold Corp.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2012 and 2011
(expressed in Canadian Dollars)

(Unaudited)

Lupaka Gold Corp.

Consolidated Interim Statements of Financial Position (Unaudited)
As at June 30, 2012 and December 31, 2011
(expressed in Canadian Dollars)

	June 30, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents (Note 10)	3,627,941	13,477,024
Trade and other receivables	71,526	163,769
Prepaid expenses and deposits	108,955	81,973
	3,808,422	13,722,766
Non-current assets		
Equipment (Note 5)	398,688	266,417
Mineral properties (Note 6)	16,863,931	16,504,191
Total assets	21,071,041	30,493,374
Liabilities		
Current liabilities		
Trade and other payables	357,616	275,700
Due to related parties (Note 7(c))	–	222,248
Due to non-controlling shareholders (Note 6)	–	2,819,016
	357,616	3,316,964
Non-current liabilities		
Due to related parties (Note 7(c))	–	66,105
	357,616	3,383,069
Equity		
Common shares (Note 8(a))	29,889,421	24,602,786
Share purchase warrants (Note 8(c))	801,809	801,809
Share options (Note 8(d))	1,694,970	1,289,511
Share-based contingent consideration (Note 6)	598,045	598,045
Deficit	(12,946,568)	(6,202,525)
Accumulated other comprehensive income	675,748	262,442
Total equity attributable to equity owners of the parent	20,713,425	21,352,068
Non-controlling interest	–	5,758,237
Total equity	20,713,425	27,110,305
Total liabilities and equity	21,071,041	30,493,374

Commitments and contingencies (Notes 6 and 11)
Subsequent Event (Note 12)

Approved and authorized for issue by the Board on August 2, 2012.

"signed" John Graf
Director

"signed" Eric Edwards
Director

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

Lupaka Gold Corp.

Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
For the three and six months ended June 30, 2012 and 2011

(expressed in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012 $	2011 $	2012 $	2011 $
Operating expenses				
Exploration				
Project administration	340,118	143,883	661,416	261,641
Camp and related costs	348,973	40,304	562,679	180,246
Drilling	109,910	265,877	116,711	365,879
Technical reports and assays	66,890	56,327	99,236	86,253
Consulting and professional fees	42,371	12,060	92,649	16,072
Transportation	47,519	37,388	92,042	68,745
Reclamation	32,798	–	32,798	–
	988,579	555,839	1,657,531	978,836
General and administration				
Salaries and benefits	212,132	294,279	607,620	640,634
Shareholder and investor relations	173,598	92,835	348,999	205,354
Professional and regulatory fees	42,355	85,773	170,518	198,726
Office and general	55,397	37,342	109,790	70,137
Corporate development	64,498	–	64,498	–
Travel	10,051	31,324	20,106	62,136
	558,031	541,553	1,321,531	1,176,987
Operating loss	1,546,610	1,097,392	2,979,062	2,155,823
Finance expense – accretion	–	213,214	22,381	426,373
Finance income – interest	(7,656)	–	(19,481)	–
Foreign exchange loss (gain)	(1,374)	(30,457)	21,399	(154,257)
Loss for the period	1,537,580	1,280,149	3,003,361	2,427,939
Loss attributable to:				
Equity owners of the parent	1,537,580	1,096,517	2,975,289	2,138,218
Non-controlling interest	–	183,632	28,072	289,721
	1,537,580	1,280,149	3,003,361	2,427,939
Foreign currency translation	(551,297)	9,440	(398,442)	8,089
Comprehensive loss	986,283	1,289,589	2,604,919	2,436,028
Comprehensive loss attributable to:				
Equity owners of the parent	986,283	1,102,181	2,561,984	2,143,071
Non-controlling interest	–	187,408	42,935	292,957
Weighted average number of shares outstanding, basic and diluted	44,716,847	26,130,103	44,153,935	25,517,919
Loss per share - Basic and diluted	$0.03	$0.04	$0.07	$0.08

Lupaka Gold Corp.

Consolidated Statements of Cash Flows (Unaudited)
For the three and six months ended June 30, 2012 and 2011

(expressed in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012 $	2011 $	2012 $	2011 $
Cash flows from (used in) operating activities				
Loss for the period	(1,537,580)	(1,280,149)	(3,003,361)	(2,427,939)
Adjustment for items not affecting cash:				
Foreign exchange loss (gain) on amount payable to non-controlling interest	–	(27,826)	6,848	(158,973)
Depreciation	21,166	8,243	41,071	9,886
Share-based compensation	194,384	243,863	442,094	588,481
Loss on write-off of vehicle	25,823	–	25,823	–
Drilling	–	489,349	–	489,349
Finance expense, net	(7,656)	212,362	2,900	426,373
Salaries and fees paid in shares	–	430,008	–	430,008
	(1,303,863)	75,850	(2,484,625)	(642,815)
Changes in non-cash working capital				
Trade and other receivables	(34,091)	(48,407)	92,243	(80,677)
Prepaid expenses and deposits	(17,410)	(61,920)	(26,982)	(108,833)
Trade and other payables	31,745	(532,604)	81,916	(494,748)
Due to related parties	(30,625)	(189,672)	(288,353)	(228,158)
Finance income received	7,656	–	19,481	–
Net cash used in operating activities	(1,346,588)	(756,753)	(2,606,320)	(1,555,231)
Cash flows used in investing activities				
Final payment for purchase of initial 60% interest in Minera Pacacorral S.A.C. (“MP”)	–	–	(3,056,700)	–
Purchase of equipment	(116,611)	(69,804)	(199,166)	(91,020)
Net cash used in investing activities	(116,611)	(69,804)	(3,255,866)	(91,020)
Cash flows from financing activities				
Purchase of 40% non-controlling interest of MP	–	–	(4,075,600)	–
Proceeds from issuance of common shares	25,000	18,668,738	50,000	18,668,738
Issue of special warrants	–	–	–	1,852,500
Net cash from financing activities	25,000	18,668,738	(4,025,600)	20,521,238
Net increase (decrease) in cash and cash equivalents	(1,438,199)	17,842,181	(9,887,786)	18,874,987
Effect of foreign exchange rate changes on cash and cash equivalents	51,172	(9,441)	38,703	(8,089)
Cash and cash equivalents - beginning of period	5,014,968	1,174,589	13,477,024	140,431
Cash and cash equivalents - end of period	3,627,941	19,007,329	3,627,941	19,007,329

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

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity (Unaudited)
For the three and six months ended June 30, 2012 and 2011

(expressed in Canadian Dollars)

	Six months ended June 30,			
	2012		2011	
	Number	**$**	**Number**	**$**
Common shares (Note 8(a))				
Balance – beginning of period	39,462,451	24,602,786	8,051,000	253,051
Issued pursuant to the initial public offering (“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
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	–	–
Balance – end of period	44,762,451	29,889,421	39,462,451	24,602,786
Share purchase warrants (Note 8(c))				
Balance – Broker and IPO warrants, beginning of period	7,466,667	801,809	–	–
Issued pursuant to the IPO	–	–	7,466,667	801,809
Balance – Broker and IPO warrants, end of period	7,466,667	801,809	7,466,667	801,809
Special warrants				
Balance – beginning of period	–	–	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
Deemed exercise of special warrants upon IPO	–	–	(17,779,500)	(6,738,100)
Balance – end of period	–	–	–	–
Share options (Note 8(d))				
Balance – beginning of period		1,289,511		317,525
Share-based payment expense		442,094		588,481
Fair value of options exercised		(36,635)		–
Balance – end of period		1,694,970		906,006
Share-based contingent consideration (Note 6)				
Balance – beginning and end of period		598,045		598,045
Deficit				
Balance – beginning of period		(6,202,525)		(1,643,852)
Purchase of non-controlling interest (Note 4)		(3,768,754)		–
Loss for the period – attributable to the shareholders of the Company		(2,975,289)		(2,138,218)
Balance – end of period		(12,946,568)		(3,782,070)
Accumulated other comprehensive income				
Balance – beginning of period		262,442		6,785
Other comprehensive (loss) income for the period		413,306		(4,853)
Balance – end of period		675,748		1,932
Non-controlling interest				
Balance – beginning of period		5,758,237		6,115,487
Comprehensive loss for the period attributable to the non-controlling interest		(42,935)		(292,957)
Contributions from non-controlling shareholders		–		489,349
Acquisition of non-controlling interest by the Company (Note 4)		(5,715,302)		–
Balance – end of period		–		6,311,879
		20,713,425		29,440,387

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

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 its wholly-owned subsidiary, Minera Pacacorral S.A.C. ("MP"). In July 2010, Lupaka acquired 60% of MP's shares and in January 2012, Lupaka acquired the remaining 40% interest - see Note 4.

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.

Collectively, Lupaka and MP are referred to hereafter as the "Company".

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. As at June 30, 2012, the Company has working capital of $3,450,806 and an accumulated deficit of $12,946,568. While the Company has sufficient cash to fund its 2012 corporate activities and exploration programs, it has no sources of operating cash flows and does not have sufficient cash to fund 2013 exploration of the Crucero Project at 2012 levels. Therefore the Company will require additional funding which, if not raised, would result in the curtailment of corporate and exploration activities. 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

These interim condensed consolidated financial statements have been prepared on a basis consistent with the accounting policies expected to be applied for the year ending December 31, 2012 and follow the same accounting policies and methods of application as the 2011 annual consolidated financial statements.

2.1 Statement of compliance

The Company adopted International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2010. These consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements prepared using IFRS.

These consolidated financial statements were approved by the Company's Board of Directors on August 2, 2012.

2.2 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for share-based compensation and warrants. 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

These financial statements consolidate the financial statements of Lupaka and any subsidiaries that Lupaka controls. Control is achieved where Lupaka has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from is activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into line with those used by the Company. Inter-company transactions, balances, income, comprehensive income and expenses are eliminated on consolidation, where appropriate.

2.4 Non-controlling interest

Non-controlling interest represents the equity interest in MP owned by the non-controlling shareholders of MP. During the quarter ended March 31, 2012, Lupaka purchased the remaining 40% interest in MP held by the non-controlling shareholders – see Note 4. The share of net assets of subsidiaries 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 parent company'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. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets is the recoverability of the carrying value of mineral properties.

2.6 Related parties

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

3 Significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2011. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for interim and annual periods beginning after January 1, 2013, including IAS 1 *Presentation of Financial Statements*, IAS 19 *Employee Benefits*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*, IFRS 9 *Financial Instruments*, IFRS *10 Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest of Other Entities*, and IFRS 13 *Fair Value Measurement* and have not been applied in preparing these consolidated financial statements. The Company is currently assessing the impact of these standards.

4 Purchase of remaining interest in MP

On January 19, 2012, the Company negotiated the acquisition of 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 8 (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.

(expressed in Canadian Dollars)

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
	9,484,056

	Equity acquired **$**
Deficit	3,768,754
Non-controlling interest as at January 19, 2012	5,715,302
	9,484,056

5 Equipment

	Vehicles and field equipment $	Office equipment and furniture $	Total $
Cost			
Balance as at December 31, 2011	233,599	71,816	305,415
Additions	195,075	4,090	199,165
Loss on write-off of vehicle	(25,823)	–	(25,823)
Balance as at June 30, 2012	402,851	75,906	478,757
Accumulated depreciation			
Balance as at December 31, 2011	30,925	8,073	38,998
Depreciation	29,238	11,833	41,071
Balance as at June 30, 2012	60,163	19,906	80,069
Carrying amounts			
Balance as at December 31, 2011	202,674	63,743	266,417
Balance as at June 30, 2012	342,688	56,000	398,688

During the six months ended June 30, 2012, $37,136 (2011 – $7,963) of depreciation was included in project administration and $3,935 (2011 – $1,923) of depreciation was included in office and general.

6 Mineral properties

The Company's mineral properties are comprised of nine concessions and petition claims covering 5,500 hectares that are owned by MP and which make up Crucero, located in the Carabaya Province of southeast Peru.

The Crucero concessions are comprised of: three 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 three 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.

    As at June 30, 2012 the Company's resource estimate is approximately 1.792 million combined ounces of indicated and inferred gold resources. Under the terms of the Assignment and Assumption Agreement, if the share-based contingent consideration was to be paid on June 30, 2012, the Company would have had to issue approximately 1,966,000 shares to K-Rok.

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. No K-Rok Contingent Shares have been issued to date.

During the quarter ended March 31, 2012, and as part of the closing 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. 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 June 30, 2012 is $16,863,931 ($16,504,191 – December 31, 2011). The change in carrying value of $359,740 for the six months ended June 30, 2012 is due to changes in foreign currency translation rates between the Canadian dollar and Peruvian soles from December 31, 2011 to June 30, 2012.

7 Related party transactions

Balances and transactions between Lupaka and its subsidiaries, which are related parties of Lupaka, 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.

During the periods ended June 30, 2012 and 2011, the Company had related party transactions with K-Rok, 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, a consultant to the Company.

(expressed in Canadian Dollars)

(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:

		Six months ended June 30,	
Nature of Transaction	Related Party	2012 $	2011 $
Project administration	S, D	40,417	73,333
Shareholder and investor relations	S	60,000	60,000
Salaries and benefits	S, D	20,208	23,148
Technical reports and assays	S	3,780	2,484
Drilling	NCS	–	489,349
Office and general	S	–	4,033
		124,405	652,347

(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:

	Six months ended June 30,	
	2012 $	2011 $
Salaries, fees and benefits	451,423	244,500
Share-based compensation	208,871	401,896
Total key management compensation	660,294	646,396

(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 June 30, 2012, there were no amounts payable to related parties (December 31, 2011 – $288,353).

8 Equity

a) Common shares

Authorized: unlimited with no par value.

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.

b) Preferred shares

Authorized: unlimited with no par value.

No preferred shares have been issued to date.

c) Share purchase warrants

Pursuant to the Company's initial public offering on June 28, 2011 (the "IPO"), there are 800,000 share purchase warrants outstanding at an exercise price of $2.25 expiring on June 28, 2013 ("Broker warrants") and 6,666,667 warrants outstanding at an exercise price of $2.25 expiring on June 28, 2014 ("IPO warrants").

d) 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.

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 are subject to escrow restrictions.

(expressed in Canadian Dollars)

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

	Number of options	Weighted average exercise price $	
Outstanding, December 31, 2011	3,697,000	0.73	
Granted	140,000	1.35	
Forfeited	(140,000)	1.35	
Exercised	(50,000)	0.50	*
Outstanding, March 31, 2012	3,647,000	0.74	
Granted	50,000	1.23	
Exercised	(50,000)	0.50	**
Outstanding, June 30, 2012	3,647,000	0.75	
Exercisable, June 30, 2012	2,986,000	0.65	

* - The weighted average price of Lupaka's shares on the date of exercise was $1.34.
** - The weighted average price of Lupaka's shares on the date of exercise was $0.88.

The weighted average fair value of all share options granted in the six months ended June 30, 2012 was estimated to be $1.01 (2011 – $0.36) per option at the grant date using the Black-Scholes option-pricing model and based on the following assumptions:

	Six months ended June 30	
	2012	2011
Weighted average market price ($)	1.32	0.50
Weighted average exercise price ($)	1.32	0.50
Dividend yield	–	–
Risk free interest rate (%)	1.2 – 1.5	1.9 – 2.6
Expected life (years)	3.2 – 4.6	4.8 – 5.0
Expected volatility (%)	115 – 126	96

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.

(expressed in Canadian Dollars)

Non-cash share-based compensation costs have been allocated as follows:

	Three months ended June 30		Six months ended June 30	
	2012 $	2011 $	2012 $	2011 $
Salaries and benefits	81,011	162,764	197,150	397,197
Project administration	82,549	37,475	169,929	89,575
Shareholder and investor relations	27,431	34,899	66,757	81,367
Consulting and professional fees	3,393	–	8,258	–
Professional and regulatory fees	–	8,725	–	20,342
Total share-based compensation	194,384	243,863	442,094	588,481

The following table summarizes information about share options outstanding and exercisable at June 30, 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)
2015	0.50	2,200,000	0.50	3.3	2,200,000	0.50	3.3
2016	0.50 – 1.21	1,397,000	1.12	4.3	786,000	1.05	4.2
2017	1.23	50,000	1.23	4.8	–		
	0.50 – 1.23	3,647,000	0.75	3.7	2,986,000	0.65	3.5

e) Share options

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 and outstanding during the period.

For the six months ended June 30, 2012, 11,113,667 (June 30, 2011 – 9,941,667) 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.

(expressed in Canadian Dollars)

9 Segmented information

The Company operates in one segment, being mineral exploration. The Company has no revenues. Losses for the period and total assets by geographic location are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	$	$	$	$
Loss				
Canada	467,490	821,070	1,320,886	1,703,636
Peru	1,070,090	459,079	1,682,475	724,303
	1,537,580	1,280,149	3,003,361	2,427,939

	June 30, 2012	December 31, 2011
	$	$
Total assets		
Canada	3,666,003	13,599,346
Peru	17,405,038	16,894,028
	21,071,041	30,493,374

10 Supplemental cash flow information

Cash and cash equivalents comprise the following:

	June 30, 2012	December 31, 2011
	$	$
Cash	212,160	246,469
Short-term investments	3,415,781	13,230,555
	3,627,941	13,477,024

At June 30, 2012, the Company's short-term investments are invested in premium investment savings accounts in place at a major Canadian chartered bank and cashable at any time.

11 Commitments

Future remaining minimum operating lease payments for the Company's Vancouver, Canada office are as follows:

	June 30, 2012
	$
2012	35,256
2013	66,830
	102,086

12 Subsequent event

The Company and Andean American Gold Corp. ("Andean American") entered into an agreement, dated July 16, 2012 whereby the Company will acquire all of the issued and outstanding shares of Andean American, which is a Canadian public company listed on the TSX Venture Exchange (symbol: AAG). As at June 30, 2012, Andean American's principal assets were: cash; 100% ownership of the Invicta Project, a gold-copper resource in northwest Peru; and 16.9% of the outstanding common shares of Southern Legacy Minerals Inc., a Peru-based public company listed on the TSX Venture Exchange (symbol: LCY) whose flagship asset is the AntaKori Project, which is located in the Yanacocha mining district of Peru. The AntaKori Project currently has a NI 43-101 compliant inferred resource estimate of 5.9 billion pounds of copper equivalent at an average grade of 0.92% copper equivalent.

The Company and Andean American have agreed to complete a plan of arrangement (the "Arrangement") under which shareholders of Andean American will receive 0.245 of a common share of the Company in respect of each common share of Andean American held, resulting in the shareholders of Andean American owning approximately 45.27 percent of the outstanding common shares of the Company.

Completion of the Arrangement is subject to the satisfaction of customary conditions, including but not limited to: a mutual break fee of $1,150,000; the approval of the Company's and Andean American's shareholders; and court and regulatory approvals, including acceptance by the Toronto Stock Exchange and the TSX Venture Exchange.