Lupaka Gold Corp.

Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Presented in Canadian Dollars)

April 30, 2018

Independent Auditor's Report

To the Shareholders of Lupaka Gold Corp.

We have audited the accompanying consolidated financial statements of Lupaka Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lupaka Gold Corp. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Lupaka Gold Corp.

Consolidated Statements of Financial Position
As at December 31, 2017 and 2016

(presented in thousands of Canadian Dollars)

	December 31, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash	1,656	112
Value added tax receivables	41	18
Due from related party (Note 4)	236	–
Marketable securities (Note 4)	3,797	–
Prepaid expenses and deposits	261	38
	5,991	168
Non-current assets		
Equipment (Note 5)	95	206
Exploration and evaluation properties (Note 6)	–	28,673
Mineral property under development (Note 7)	13,240	–
Total assets	19,326	29,048
Liabilities		
Current liabilities		
Accounts payables and accrued liabilities	1,321	1,476
Current portion of loans (Note 9)	600	–
Current portion of metals derivative liability (Note 11)	259	–
Due to related parties (Note 8)	254	667
	2,434	2,143
Long-term liabilities		
Metals derivative liability (Note 11)	3,368	–
Deferred revenues (Note 10)	1,177	–
Reclamation and closure cost obligations (Note 12)	652	285
Other liability (Note 8)	275	–
Long-term portion of loans (Note 9)	211	659
Total liabilities	8,117	3,087
Equity		
Common shares (Note 13 (a))	58,774	58,419
Warrants (Note 13 (b))	1,286	1,366
Contributed surplus	4,802	4,012
Deficit	(54,834)	(39,951)
Accumulated other comprehensive income	1,181	2,115
Total equity	11,209	25,961
Total liabilities and equity	19,326	29,048

Nature of operations (Note 1)
Contingencies (Note 11)
Subsequent events (Notes 4, 6, 8, 9 and 10)

Approved and authorized for issue by the Board of Directors on April 18, 2017

signed "William Ansley"
Director, President and CEO

signed "Stephen Silbernagel"
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, 2017 and 2016

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

	2017 $	2016 $
Operating expenses		
Exploration		
Camp, community relations and related costs, net of recoveries	900	656
Project administration	640	849
	1,540	1,505
General and administration		
Salaries and benefits	263	259
Professional and regulatory fees	199	190
Corporate development	191	–
Office and general	110	103
Shareholder and investor relations	85	35
Travel	22	19
	870	606
Operating loss	2,410	2,111
Loss on sale of exploration asset (Note 6)	11,037	–
Financing expenses (Note 18)	1,137	110
Loss on metals derivative liability	218	–
Loss on sale of marketable securities (Note 4)	81	–
Net loss for the year	14,883	2,221
Other comprehensive loss		
Change in fair value of available-for-sale securities	275	–
Currency translation adjustment on foreign operations	659	375
Comprehensive loss for the year	15,817	2,596
Weighted average number of shares outstanding, basic and diluted	117,431,625	112,105,944
Loss per share, basic and diluted	$0.13	$0.02

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

Lupaka Gold Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(presented in Thousands of Canadian Dollars)

	2017 $	2016 $
Cash flows from (used in) operating activities		
Net loss for the year	(14,883)	(2,221)
Adjustment for items not affecting cash:		
Loss on sale of exploration asset (Note 6)	11,037	–
Unrealized foreign exchange	419	–
Loan accretion	527	68
Share-based compensation expense	266	168
Loss for marketable securities (Note 4)	81	–
Loss on metals derivative liability	218	–
Finance expense	79	–
Write-down of equipment	72	–
Depreciation (Note 5)	37	52
Gain on sale of equipment	–	(17)
Provisions for reclamation	–	7
	(2,147)	(1,943)
Changes in non-cash working capital		
Trade and other receivables	(23)	2
Prepaid expenses and deposits	(224)	11
Accounts payables and accrued liabilities	24	234
Due to related parties (Note 8)	(413)	(29)
Net cash used in operating activities	(2,783)	(1,725)
Cash flows from (used in) investing activities		
Mineral property costs	(1,870)	–
Proceeds on sale of mineral property	750	–
Proceeds on sale of marketable securities	581	–
Purchase of equipment	(4)	(3)
Proceeds on sale of equipment	–	20
Net cash from (used in) investing activities	(543)	17
Cash flows from (used in) financing activities		
PLI Financing (Note 10)	4,579	–
Proceeds from loans, net (Note 9)	706	726
Proceeds from private placement, net (Note 13)	298	400
Repayment of loan (Note 9)	(750)	–
Deposits held	–	190
Exercises of warrants	50	391
Exercises of options	46	39
Net cash from financing activities	4,929	1,746
Net increase (decrease) in cash	1,603	38
Cash- beginning of year	112	52
Effect of foreign exchange rate changes on cash	(59)	22
Cash - end of year	1,656	112

Lupaka Gold Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016

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

	2017		2016	
	Number	**$**	**Number**	**$**
Common shares (Note 13 (a))				
Balance – beginning of year	115,474,680	58,419	103,563,251	57,791
Issued pursuant to private placements	2,000,000	168	8,390,000	99
Share purchase warrants exercised	500,000	65	3,146,429	465
Shares issued for debt	300,000	45	–	–
Stock options exercised	460,000	77	375,000	64
Balance – end of year	118,734,680	58,774	115,474,680	58,419
Share purchase warrants (Note 13 (b))				
Balance – beginning of year		1,366		815
Issued pursuant to a private placement		129		301
Issued pursuant to loans (Note 9)		330		325
Share purchase warrants exercised		(15)		(75)
Share purchase warrants expired		(540)		–
Agent's warrants issued pursuant to PLI Financing (Note 10)		16		–
Balance – end of year		1,286		1,366
Contributed surplus				
Balance – beginning of year		4,012		3,869
Share-based compensation		281		168
Share purchase warrants expired		540		–
Stock options exercised		(31)		(25)
Balance – end of year		4,802		4,012
Deficit				
Balance – beginning of year		(39,951)		(37,730)
Net loss for the year		(14,883)		(2,221)
Balance – end of year		(54,834)		(39,951)
Accumulated other comprehensive income				
Balance – beginning of year		2,115		2,490
Change in fair value of available-for-sale securities		(275)		–
Currency translation adjustment on foreign operations		(659)		(375)
Balance – end of year		1,181		2,115
Total equity		11,209		25,961

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

1 Nature of operations

Lupaka Gold Corp. ("Lupaka") was incorporated in Canada on November 3, 2000 under the legislation of the Province of British Columbia, and is in the business of acquisition, exploration and development of mineral resource properties. Lupaka was dormant prior to January 1, 2010.

All of Lupaka's resource projects are located in Peru and are held by Lupaka's 100%-owned subsidiaries.

Lupaka's registered office is located at 700 – 595 Howe Street, Vancouver, BC, V6C 2T5 and its records office is located at 220 – 800 West Pender Street, Vancouver, BC, V6C 2V6. Lupaka's common shares trade in Canada on the TSX Venture Exchange ("TSX.V") and in Germany on the Frankfurt Exchange under the symbol LQP.

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

2 Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently followed, unless otherwise stated.

2.1 Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Company's Board of Directors on April 18, 2017.

2.2 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.3 Basis of consolidation

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into line with those used by the Company. Inter-company transactions, balances, loss, comprehensive loss and expenses are eliminated on consolidation, where appropriate.

The consolidated financial statements include the accounts of Lupaka and its subsidiaries, all of which are 100% owned:

- Andean American Gold Corp. ("AAG"), a Canadian company
- Lupaka Gold Peru S.A.C. ("LGP"), a Peru company
- Invicta Mining Corp S.A.C. ("IMC"), a Peru company
- Andean Exploraciones S.A.C. ("AES"), a Peru company (inactive)
- Greenhydro S.A.C. ("Greenhydro"), a Peru company (inactive)

2.4 Significant accounting judgments and key sources of estimate uncertainty

In preparing these consolidated financial statements, the Company is required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates and judgments used in developing and applying the accounting policies are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Significant accounting judgments

The following are the significant judgments and estimates, that management made in the process of applying the Company's key accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Reclassification of exploration & evaluation assets to mineral property under development – the decision to declare technical feasibility and commercial viability at the Invicta Gold Project and therefore reclassify the Invicta asset from an exploration and evaluation asset to a mineral property under development (the "Production Decision and Plans") are based on economic models prepared by the Company in conjunction with management's knowledge of the property and the existing estimate of Indicated and Inferred Mineral Resources on the property.

Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs –this review requires significant judgment. Factors considered in the assessment of asset impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development or cost of holding; and whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future.

Estimated useful lives – The useful life of some of the Company's items of property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment would increase the recorded operating expenses and decrease long-term assets.

Reclamation obligations – provision is made for the anticipated costs of future reclamation and rehabilitation of mining areas which have been altered due to exploration activities and/or from which natural resources have been extracted to the extent that a legal or constructive obligation exists. These provisions include future cost estimates associated with reclamation, the calculation of which requires assumptions such as application of environmental legislation, available technologies and engineering cost estimates, and asset specific discount rates to determine the present value of the related cash flows. A change in any of the assumptions used may have a material impact on the carrying value of reclamation provisions.

Deferred revenue - Significant judgments are required in determining the appropriate accounting treatment for the PLI Financing Agreement with PLI Huaura Holdings LP ("PLI") entered into during 2017 (See Note 10). Management has determined that the net deposits received from PLI, less any other metals option value (the "Other Metals Option"), for the future delivery of gold ounces from production at the Invicta Project at contractual prices meet the criteria for deferred revenue. As at December 31, 2017, only the first two of the three Tranches were received, and the estimated $1,177,000 fair value of the Other Metals Option is currently included in deferred revenue.

Recognition of deferred revenues – provision is made regarding the PLI Financing Agreement where the accounting recognition of the prepayment amounts, less any covered metals option value, are recorded as deferred revenue, to be amortized over the expected gold ounces to be delivered under the PLI Financing Agreement. These provisions include the use of future production forecasts as well as estimations of the volatility of the applicable commodity prices, the market prices, and risk-free rate.

The valuation of the related derivative in this arrangement is an area of estimation and is determined using discounted cash flow models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward curve prices, mine plans and discount rates. Changes in these assumptions could affect the carrying value of derivative assets or liabilities and the amount of gains or losses recognized in other operation income (expense).

Determination of functional currency – the functional currency is the currency of the primary economic environment in which an entity operates. This involves evaluating factors such as the dominant currency that influences local competition and regulation, the currency that is used to pay local operating costs, and the currency used to generate financing cash inflows. The evaluation of these factors is reviewed on an ongoing basis.

Determination of cash-generating units – for the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or outflows (cash-generating units). In management's judgment the Company has one cash-generating unit ("CGU") based on the evaluation of the smallest discrete group of assets that generate cash flows.

Impairment of mineral property under development – the carrying value of the Company's mineral property under development is reviewed by management at each reporting period, or whenever events or circumstances indicate that the carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount.

Recognition of deferred income tax assets - the decision to recognise a deferred tax asset is based on management's judgment of whether it is considered probable that future taxable profits will be available against which unused tax losses, tax credits or deductible temporary differences can be utilized. The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

No loss provision regarding possible additional tax assessments – the decision that no loss provision be made regarding the challenge to the deductibility of certain property write-offs and foreign exchange losses by SUNAT, the Peruvian tax authority, is based on the Company's opinion that the deductions are legitimate and can be successfully defended in the appeals process available under Peruvian law. In the event that the Company is not successful in its appeal of the tax proceedings or

SUNAT chooses to initiate collection action against IMC, management has been advised by Peruvian legal counsel that the maximum value of the related contingent tax assessment would be capped at the market value of the concessions sold by El Misti Gold, the Company's former subsidiary at the time, to IMC, which is estimated by an independent valuator to be ~US$110,000.

2.5 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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries disclosed in Note 2. All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. Control exists where the parent entity 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. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

3.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian Dollars, which is Lupaka's and AAG's functional currency. The functional currency of LGP, IMC, AES and Greenhydro is the Peruvian Nuevo Sol.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items are re-valued using the spot rate at the consolidated statements of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of loss. When a gain or loss on a non-monetary item is recognized in other comprehensive loss or income, any foreign exchange component of that gain or loss is recognized in other comprehensive loss or income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(c) Subsidiaries

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position.

(ii) Income and expenses for each statement of loss are translated at average exchange rates for the period.

(iii) Equity items are translated at historical rates.

(iv) All resulting exchange differences are recognized in other comprehensive loss until the disposal of the subsidiary.

When the Company disposes or no longer controls a foreign operation, the foreign currency gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss or income related to the subsidiary are reallocated between controlling and non-controlling interests.

3.2 Cash

Cash includes cash on hand and deposits held with banks.

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 property under development

Mineral property under development is stated at cost less accumulated amortization and accumulated impairment charges, if any. The costs associated with mineral property under development include direct costs and acquired interests in development, exploration and production-stage properties. Mineral property under development also includes the capitalized costs of associated mineral properties after acquisition of the properties, the costs incurred during the development of mineral properties (once feasibility has been established) and the deferred stripping costs after the

commencement of production. Capitalization of pre-commercial production ceases when the mining property is capable of commencement of mining operations in the manner intended by management.

When mineral property under development is brought into production, they will be amortized on a unit-of-production basis. Upon sale or abandonment of its mineral property under development, the cost and related accumulated depreciation are written off and any gains or losses thereon are included in income or loss for the year.

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, net of proceeds from the sale of metal extracted during the evaluation and exploration phase.

Once management has determined that the property is economically viable and technically feasible, 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 property under development.

3.8 Deferred loss

Deferred losses are carried at cost, less accumulated amortization and accumulated impairment losses and is amortized by units of production.

3.9 Impairment of non-current assets

At each reporting date, the Company reviews the carrying amounts of its non-current assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent with other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. The Company has determined that it has two CGU's. The recoverable amount is determined as the higher of fair value less costs of disposal 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 an equity security below its cost is evidence that the assets are impaired. The Company considers a prolonged period to be six months from the time that the carrying value is below cost, while taking into consideration the investment volatility in its determination of a significant decline.

3.10 Financial instruments

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets and liabilities are measured at fair value plus or less transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for those financial assets and liabilities classified as fair value through profit or loss, for which the transaction costs are expensed.

Financial assets and liabilities

The Company's financial instruments consist of cash, trade and other receivables, trade and other payables, marketable securities and loans.

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair-value-through-profit-and-loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities". The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. Financial liabilities are classified as either financial liabilities at "fair-value-through-profit and loss" or "other financial liabilities". Financial liabilities are classified as "fair-value-through-profit and loss" when the financial liability is either 'held for trading' or it is designated as "fair-value-through-profit and loss".

Derivative instruments

Derivative instruments, including embedded derivatives, are classified at fair value through profit or loss and, accordingly, are recorded on the statement of financial position at fair value. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the statement of financial supposition date or settlement date of the derivative. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

3.11 Share capital

Common shares are classified as equity. The proceeds from the exercise of share options or warrants together with amounts previously recorded on grant date or issue date are recorded as share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.12 Share-based compensation

The Company has a share-based compensation plan under which the entity receives services from employees, directors and non-employees as consideration for equity instruments (share options) of the Company.

The fair value of share options granted to employees is measured on the grant date and share options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense, with a corresponding increase in contributed surplus. The total amount to be expensed is determined by reference to the fair value of the options granted and the related vesting periods. The fair value is determined by using the Black-Scholes option pricing model where the fair value of services cannot be estimated reliably. Non-market vesting conditions are included in the estimate of the number of options expected to vest. At each financial reporting date, the amount recognized as an expense is adjusted to reflect the actual number of options expected to vest. Any change from estimate is recognized with a corresponding adjustment to equity. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

When share options are exercised, the proceeds received and the initial fair value of the share options in contributed surplus are credited to share capital.

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

3.13 Share purchase warrants

Share purchase warrants ("warrants") are measured at their fair value on the date of grant and are recorded as a separate component of equity. When a warrant is exercised, the initial fair value of the warrant, as determined on the grant date, is transferred to share capital. The initial fair values of warrants that expire unexercised are transferred to contributed surplus.

3.14 Loss per share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, in the weighted average number of common shares outstanding, if dilutive. Diluted loss per share is calculated using the treasury share method, in which the assumed proceeds from the potential exercise of those share options and warrants whose average market price of the underlying shares are used to purchase the Company's common shares at their average market price for the period. In a year when net losses are incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

For the year ended December 31, 2017, 36,472,397 (December 31, 2016 – 36,868,355) 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.

3.15 Reclamation provision

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company records the fair value of a provision for site reclamation and closure as a liability in the period in which it incurred a legal or constructive obligation associated with the reclamation of the mine site and the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets.

The obligation is measured initially at present value based on estimated future cash flows derived using internal information and third-party reports. The estimated cost is capitalized and included in the carrying value of the related mineral property under development and is depreciated using either the straight-line method or UOP method, as appropriate.

The provision is initially discounted using a current market-based pre-tax discount rate and subsequently increased for the unwinding of the discount. The unwinding of the discount is charged to earnings or loss for the period.

At each reporting date, the Company reviews its reclamation provision and closure to reflect the current best estimate. The reclamation provision and closure is adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or the market-based pre-tax discount rate, with the offsetting amount recorded to the reclamation and closure asset included in mineral property under development which arises at the time of establishing the provision.

3.16 Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within financing costs.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

3.17 Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of loss and comprehensive loss for the year, except to the extent that it relates to items recognized in other comprehensive loss or income or directly in equity. In this case, the tax is also recognized in other comprehensive loss or income or directly in equity, respectively.

(a) Current tax

Current income taxes are calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the

transaction affects accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.18 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 its mineral property under development. The Company’s geographical segments are determined by the location of the Company’s assets and liabilities.

3.19 Valuation of equity units issued in private placements

The fair value of the common shares issued in the private placements was determined to be the pro rata portion of the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date and the pro rata fair value attributable to the warrants that was calculated using the Black-Scholes pricing model. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

3.20 New standards and interpretations

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning January 1, 2018. Pronouncements that are not applicable to the Company have been excluded from this note. The following pronouncements have been issued but are not yet effective:

IFRS 9 - Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments ("IFRS 9") to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company completed its evaluation of the impact of this standard and does not expect the Company’s consolidated financial statements to be affected by IFRS 9.

IFRS 15 - *Revenue from Contracts with Customers* - In April 2016, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers, and SIC 31 - Revenue - Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is currently mandatory for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has early-adopted this standard on its consolidated financial statements. There was no impact on such early adoption.

4 Marketable securities

On November 20, 2017 (“Closing Date”), the Company closed the sale of Crucero and acquired 3,500,000 common shares of Goldmining Inc. (TSXV: GOLD, the “GOLD Shares”), which the Company classifies as an available-for-sale financial asset. As at the Closing Date, the fair market value of this investment was $4,970,000 or $1.42 per share. Pursuant to the sale purchase agreement, sales of GOLD Shares are subject to a daily volume-based sale restriction.

On December 20, 2017, the Company sold 200,000 GOLD shares to an officer of the Company in exchange for $235,800, payment of which was outstanding as at December 31, 2017 and was received in January 2018.

As at December 31, 2017, Company held 2,854,600 GOLD shares and as the quoted market value of the GOLD shares had decreased from the original acquisition market value, the Company recorded a decline in fair value of $275,000, included in other comprehensive loss, on its GOLD shareholdings. Additionally, the Company realized a total loss of $81,000 on the sale of 645,400 GOLD shares, including a loss of $30,000 on the sale of 200,000 GOLD shares to an officer of the Company (see Note 8 (c)).

5 Equipment

In thousands of dollars	**Vehicles and field equipment** $	**Office equip and furniture** $	**Total** $
Cost			
Balance as at December 31, 2015	607	105	712
Additions	–	3	3
Disposal of equipment	(34)	–	(34)
Foreign exchange	(9)	(2)	(11)
Balance as at December 31, 2016	564	106	670
Additions	–	4	4
Write-down of equipment	(274)	(16)	(290)
Foreign exchange	(15)	(8)	(23)
Balance as at December 31, 2017	275	86	361
Accumulated depreciation			
Balance as at December 31, 2015	366	84	450
Depreciation	41	11	52
Disposal of equipment	(31)	–	(31)
Foreign exchange	(5)	(2)	(7)
Balance as at December 31, 2016	371	93	464
Depreciation	32	5	37
Write-down of equipment	(208)	(10)	(218)
Foreign exchange	(12)	(5)	(17)
Balance as at December 31, 2017	183	83	266
Carrying amounts			
Balance as at December 31, 2016	193	13	206
Balance as at December 31, 2017	92	3	95

During the year ended December 31, 2017, $32,000 (2016 – $47,000) of depreciation was included in project administration and $5,000 (2016 – $5,000) of depreciation was included in office and general. During the year ended December 31, 2017, the Company recorded a net write-down of $72,000 for obsolete equipment.

6 Exploration and evaluation assets

Lupaka's exploration and evaluation assets were comprised of the Crucero Gold Project and the Josnitoro Gold Project.

Crucero Gold Project ("Crucero")

On November 20, 2017, the Company closed (the "Closing") a definitive sales and purchase agreement (the "SPA") to sell all of its interests in Crucero to GoldMining Inc. ("GoldMining"). Pursuant to the SPA, GoldMining acquired all of the shares of a wholly-owned, numbered subsidiary of the Company, created specifically to hold the Company's Crucero assets, for $750,000 in cash and 3,500,000 common shares of GoldMining (TSXV: "GOLD"). The total consideration had a fair value of $5,720,000 as of the Closing. The GOLD shares issued under the transaction are subject to certain volume-sale restrictions. An advisory fee of $184,000 was incurred by the Company in connection with the Crucero sale transaction.

The aggregate consideration received from GoldMining of $5,720,000 was credited to exploration and evaluation assets as a disposition of a mineral property. The transaction with GoldMining resulted in the Company recognizing a loss of $11,037,000, calculated as follows:

In thousands of dollars	**$**
Consideration from GoldMining	
Common shares of GoldMining	4,970
Cash	750
Total consideration	5,720
Crucero Project, carried cost	(16,757)
Loss on disposal of subsidiary	11,037

Josnitoro Gold Project ("Josnitoro")

Effective March 31, 2014, the Company entered into a definitive option agreement with Hochschild Mining plc ("Hochschild") to earn a 65% interest on Josnitoro (the "Hochschild Option") in Southern Peru. Josnitoro is an exploration stage gold and copper project in the Department of Apurimac which is comprised of 19 concessions.

As the Company was unable to meet the requirements of the Hochschild Option, on March 28, 2018, the Company received a formal notice of termination of the Hochschild Option from Hochschild.

The carrying value for Josnitoro, for which no consideration has been paid, as at December 31, 2017 and December 31, 2016 was $Nil.

7 Mineral property under development

The Company's Invicta Gold Project ("Invicta") comprises the Company's sole mineral property under development.

The Company acquired Invicta, in the Lima Region of central Peru, in connection with the Company's October 2012 acquisition of AAG.

Invicta contains a gold-copper polymetallic underground deposit located within the group of 5 Victoria concessions acquired from Minera Barrick Misquichilca ("Barrick") as well as another concession (Invicta II) obtained by IMC through an acquisition and staking program undertaken prior to the Company's AAG acquisition.

The Invicta resource was originally acquired by AAG by way of an October 2005 option agreement with Barrick (the "Option Agreement"), a wholly-owned subsidiary of Barrick Gold Corporation, which was exercised in 2007. In June 2014, the Company was advised by Barrick that their advance royalty and production royalty agreements were assigned and sold to Franco-Nevada Corporation ("FN"), a royalty and stream company.

The Option Agreement required AAG to pay Barrick US$200,000 for the mining rights, plus a 1% Net Smelter Royalty ("NSR") capped at US$800,000. The Option Agreement also called for advance annual royalty payments of US$100,000, commencing on the date of exercising the option and every anniversary thereafter as well as a requirement to pay FN, upon the commencement of commercial production, US$50,000 on a quarterly basis (capped at a total of US$800,000). During the year ended December 31, 2017, the Company paid FN a total of US$950,000 as full and final settlement of any outstanding and future royalty obligations.

After the acquisition of Invicta by the Company in October 2012, costs associated with Invicta were expensed as exploration expenditures up to and including July 2017. Beginning in August 2017, such expenditures were capitalized to mineral property under development as management determined that with the receipt of Tranche 1 of the PLI Financing, the project was able to proceed to construction and pre-production. As a result, Invicta transitioned from an exploration property under IFRS 6 to mineral properties, plant and equipment under IAS 16. At the time of the transition from exploration to mineral property under development, the Company completed an impairment test as required by IFRS 6. The impairment test compared the carrying amount of Invicta to its recoverable amount, which is the higher of the fair value less costs of disposal and value in use. Upon completion of the impairment test, the Company concluded there was no impairment.

The components of the Invicta mineral property under development costs are as follows:

In thousands of dollars	**Acquisition Costs $**	**Concession Fees $**	**Infra-structure $**	**Community $**	**Project Admin $**	**Total $**
Cost						
Balance, December 31, 2016	11,132	–	–	–	–	11,132
Additions	941	59	823	626	18	2,467
Foreign exchange	(359)	–	–	–	–	(359)
Balance, December 31, 2017	11,714	59	823	626	18	13,240

8 Related party transactions

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

(a) Related party expenditures

During the year ended December 31, 2017, the Company paid certain officers and directors and/or companies controlled by them or a related party, $67,000 in fiscal 2017 interest payments related to the Company's bridge loans. The Company's directors' and officers' bridge loan holdings comprise $180,000 of a total of $750,000 for BL1, $150,000 of a total of $300,000 for BL2 and $500,000 of a total of $600,000 for BL3.

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

In thousands of dollars	**2017** **$**	**2016** **$**
Salaries and benefits	220	233
Share-based compensation	204	107
Total key management compensation	424	340

(c) Due to/from related parties

Amounts due to or from related parties are unsecured and non-interest bearing and measured at the amount of consideration established and agreed to by the related parties.

As at December 31, 2017:

i. $15,000 was payable to an officer, director and a company controlled by a related party for unpaid services rendered; and
ii. $2,975 was payable to companies controlled by a director of the Company for interest accrued and payable for advances made;
iii. Pursuant to a March 2018 settlement agreement between the Company and a former CEO of the Company, $275,000 is to be paid in each of April 2018 and April 2019 to the former CEO; and
iv. An amount equivalent to $235,800 was due from an officer for the outstanding transfer of 200,000 GOLD shares owed to him as at December 31, 2017 (see Note 4).

9 Loans

Bridge Loan 1 ("BL1")

On June 30, 2016, the Company completed a bridge loan financing for gross proceeds of $750,000 with a group of third-party individuals and Insiders of the Company. The Company paid $8,100 cash in finders' fees in connection with third-party investors and $16,300 in other costs. Pursuant to the closing of BL1, the Company also issued share purchase warrants ("BL1 Warrants") as additional consideration for the loan – see Note 13.

On November 20, 2017, the BL1 principal and accrued interest was paid out to the noteholders.

Bridge Loan 2 ("BL2")

Effective January 12, 2017 ("Closing Date"), the Company completed a bridge loan financing for gross proceeds of $300,000 with a group of third-party individuals and Insiders of the Company. No finders' fees were paid in connection with this bridge loan.

BL2 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually, with the first interest payment due on June 30, 2017 and each 6 months thereafter.

The BL2 principal and accrued and unpaid interest is payable in full on or before the earlier to occur of: (i) three months after the Company receives an advance of funds of at least $8.0 million in new financing, if the noteholder requests repayment of BL2; and (ii) the date that is two years after the Closing Date.

Pursuant to the closing of BL2, the Company issued share purchase warrants ("BL2 Warrants") – see Note 13.

The recorded value of the BL2 balance as at December 31, 2017 is partially accreted and included in Long-term liabilities on the consolidated statements of financial statements of financial position is as follows:

In thousands of dollars	Liability $	Equity $
Balance, January 1, 2017	–	–
BL2 proceeds	300	–
Fair value of BL2 Warrants issued	(147)	147
BL2 issue costs allocated	(1)	(1)
Loan accretion	59	–
Balance, December 31, 2017	211	146

Bridge Loan 3 ("BL3")

Effective June 30, 2017 ("Effective Date"), the Company completed a bridge loan financing for gross proceeds of $600,000 with a group of third-party individuals and Insiders of the Company. No finders' fees were paid in connection with this bridge loan.

BL3 is unsecured and bears simple interest at the rate of twelve percent (12%) per annum, calculated and payable semi-annually.

The BL3 principal and accrued and unpaid interest is payable in full on or before: (i) three months after the Company receives any additional and/or new financing of at least $4.0 million, if the noteholder requests repayment of BL3; or (ii) the date that is six months after the Effective Date, whichever is the earlier.

Pursuant to the closing of BL3, the Company issued share purchase warrants ("BL3 Warrants") – see Note 13.

The Company's directors subsequently extended the term of the BL3 loan and the BL3 Warrants to June 30, 2019, subject to regulatory approval.

The recorded value of the BL3 balance as at December 31, 2017 is fully accreted and included in Current Liabilities on the consolidated statements of financial statements of financial position, as follows:

In thousands of dollars	Liability $	Equity $
Balance, January 1, 2017	–	–
BL3 proceeds	600	–
Fair value of BL3 Warrants issued	(185)	185
BL3 issue costs allocated	(2)	(1)
Loan accretion	187	–
Balance, December 31, 2017	600	184

10 Deferred revenue

Management has determined that the net proceeds from the Invicta financing received from PLI, less any Other Metals Option value, for the future delivery of gold ounces from production at the Invicta Project at contractual prices meet the criteria for deferred revenue.

As at December 31, 2017, only the first two of the three Tranches were received, and the estimated $1,177,000 fair value of the Other Metals Option is currently included in deferred revenue.

Invicta financing

By agreement dated June 30, 2016 and amended August 2, 2017, the Company executed the PLI Financing Agreement with PLI to fund the completion of development and initiate production at its Invicta Gold Project (“Invicta”). PLI is an investment vehicle controlled by Pandion Mine Finance, LLC.

The gross proceeds received was US$7 Million, payable in three tranches of US$2.5 Million (“Tranche 1”, received in August 2017), US$2.0 Million (“Tranche 2”, received in November 2017) and US$2.5 Million (“Tranche 3”, received in February 2018).

Each Tranche has a grace period of 15 months after which the Company will deliver to PLI a total of 22,680 ounces of gold over the subsequent 45 months. For the repayment ounces, the Company will receive an amount per ounce of gold equal to the market price at the time, less a fixed discount. After the Tranches have been repaid, the Company will have no further obligations under the PLI Financing Agreement. During the term of the PLI Financing Agreement, PLI will also share in the upside on any increase in certain metal prices above the base spot price established in the PLI Financing Agreement. See Note 11.

The Company has the right to buy out and terminate the PLI Financing Agreement at any time and the Company’s obligations under this agreement are secured by a first charge over all of the Company’s assets.

Concurrent with the receipt of Tranche 1, one-time upfront fees of US$900,000 were paid to PLI and netted from Tranche 1 as required under the PLI Financing Agreement.

Additionally, pursuant to finder's fee and advisory agreements entered into with Red Cloud Capital Markets and KLR Capital (the "Agents"), the Company incurred the following financing fees, which were expensed during the year ended December 31, 2017:

1. Cash consideration for US$146,000 ("Agents' Fees"), equivalent to 8% of the funds received in Tranche 1 and Tranche 2; and

2. Agents' Warrants equivalent to 1% of the funds received in Tranche 1 and Tranche 2, with an exercise price of $0.20 and $0.175, respectively, and a two-year term expiring on August 4, 2019 and November 7, 2019, respectively (See Note 13 (b)).

The key condition precedent remaining to receive Tranche 3 was the requirement for the Company to raise US$2 Million in additional non-debt capital, which was successfully completed in January 2018, whereupon the proceeds of Tranche 3 was received by the Company in February 2018.

As at December 31, 2017, deferred revenue of $1,177,000 (US$938,000) is comprised as follows:

In thousands of dollars	**CAD** **$**	**USD** **$**
Tranche 1, net	2,022	1,600
Less: Tranche 1 Metals derivative liability	(1,817)	(1,438)
Tranche 2	2,557	2,000
Less: Tranche 2 Metals derivative liability	(1,643)	(1,285)
Financing fee accretion	79	61
Foreign exchange	(21)	–
Total	1,177	938

The related Agents' Fees and a Black Scholes calculation of the Agents' Warrants total $382,000 and are included in financing expenses in the statement of loss.

11 Metals derivative liability

The metals derivative liability was determined to be a distinct and separate obligation under the PLI Financing Agreement as it provides some upside to PLI in the event that prices for non-gold metals (specifically silver, copper, lead, and zinc) exceed baseline levels set on inception of the agreement, noting this relates only to production of metals at Invicta once commercial production is achieved.

Consequently, the metals derivative liability is measured and accounted for separately from the related PLI prepayment deferred revenue (see Note 10).

Calculation of the metals derivative liability uses the Black-Scholes option-pricing model, with valuation at both inception and period ends, whereby the following assumptions were applied for Tranche 1 during the period ended September 30, 2017:

	Silver (oz)	Copper (tonne)	Lead (tonne)	Zinc (tonne)
Quantity	64,298	432	344	316
Metal price ($ per unit)	US$16.86	US$5,860	US$2,359	US$2,934
Exercise price ($ per unit)	US$15.62	US$5,497	US$2,051	US$2,453
Risk free interest rate (%)	1.21%	1.21%	1.21%	1.21%
Expected life (years)	5.64	5.64	5.64	5.64
Expected volatility (%)	25.6%	19.0%	22.7%	19.6%

The following assumptions were applied to Tranche 2 and the revaluation of Tranche 1 as at December 31, 2017:

	Silver (oz)	Copper (tonne)	Lead (tonne)	Zinc (tonne)
Quantity	115,736	777	620	569
Metal price ($ per unit)	US$16.99	US$5,886	US$2,496	US$3,318
Exercise price ($ per unit)	US$15.62	US$5,497	US$2,051	US$2,453
Risk free interest rate (%)	1.82%	1.82%	1.82%	1.82%
Expected life (years)	5.25	5.25	5.25	5.25
Expected volatility (%)	24.9%	18.8%	21.7%	19.0%

As at December 31, 2017, the fair value of the metals derivative liability was $3,627,000 (US$2,891,000) and comprised as follows:

In thousands of dollars	**CAD** **$**	**USD** **$**
Tranche 1 metals derivative liability	1,817	1,438
Tranche 2 metals derivative liability	1,643	1,285
Revaluation at December 31, 2017	218	168
Foreign exchange	(51)	–
Total	3,627	2,891
Current portion of metals derivative liability	259	206
Long-term portion of metals derivative liability	3,368	2,685
Total	3,627	2,891

12 Reclamation and closure cost obligations

When the Company exhausts or abandons a mining property or an exploration site, it is required to undertake certain reclamation and closure procedures under the terms of the legislation enacted by the government of Peru.

The provision has been measured at the estimated value of future rehabilitation costs and estimated mine life of 9 years plus an additional 4 years of post-mine life rehabilitation. The estimated cash-flows were discounted to present value using a risk-free discount rate (adjusted to inflation) of 7%. Periodically the Company reviews the estimate of future costs of the requisite reclamation and closure work required by current legislative standards. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of $652,000 (US $805,036 undiscounted). These future cash outflows have been discounted at the risk-free interest rate considered applicable in Peru, where the Company's properties are located.

13 Equity

a) Common shares

Authorized: unlimited with no par value.

On May 24, 2017, the Company completed a non-brokered private placement unit offering with a group of Insiders of the Company (78%) and third-party individuals (22%) to raise gross proceeds of up to $300,000. The Company issued 2,000,000 units (the "May 2017 Unit") priced at $0.15 per unit. Each May 2017 Unit consists of one common share and one transferable common share purchase warrant (each, a "May 2017 Warrant"). Each May 2017 Warrant entitles the holder to purchase one additional common share, exercisable at $0.23 for a period of thirty-six months from closing.

During the year ended December 31, 2017, 960,000 common shares were issued for proceeds of $50,000 from the exercise of 500,000 share purchase warrants at $0.10 per share and 460,000 stock options were exercised for proceeds of $46,000 at a weighted average price of $0.10 per share.

During the year ended December 31, 2016, 3,146,429 common shares were issued for proceeds of $390,500 on the exercise of 1,517,142 warrants at $0.15 per share and 1,629,287 warrants at $0.10 per share. Of the warrants exercised, 1,919,761 were exercised by certain directors and officers of the Company for proceeds of $226,500.

On February 19, 2016, the Company closed a non-brokered private placement (the "February 2016 Placement") and issued 8,390,000 Units priced at $0.05 per Unit, for gross proceeds of $419,500. For the February 2016 Placement, each Unit consists of one common share and one transferable common share purchase warrant (the "Placement Warrant"). Each Placement Warrant entitles the holder to purchase one additional common share, exercisable at $0.10 for a period of thirty-six months from closing. No Insiders of the Company participated in the February 2016 Placement and finders' fees to arm's-length parties consisted of $16,110 in cash. Other share issue costs totalled approximately $3,500.

b) Share purchase warrants

The Company has the following share purchase warrants outstanding as at December 31, 2017:

		Outstanding and Exercisable		
Year of Expiry	Range of exercise prices $	Number of options outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)
2018	0.10 – 0.20	15,610,855	0.16	0.6
2019	0.10 – 0.20	9,436,542	0.12	1.1
2020	0.23	2,000,000	0.23	2.4
	0.10 – 0.23	27,047,397	0.15	0.9

Following is a continuity schedule for the Company's warrants, for the year ended December 31, 2017:

	2017		2016	
	Number of share purchase warrants	Weighted average exercise price $	Number of share purchase warrants	Weighted average exercise price $
Warrants outstanding – beginning of year	28,173,355	0.19	19,179,784	0.34
Placement Warrants issued	2,000,000	0.23	8,390,000	0.10
Bridge Loan 1 Warrants issued	-	-	3,750,000	0.20
Bridge Loan 2 Warrants issued	1,500,000	0.20	–	–
Bridge Loan 3 Warrants issued	4,000,000	0.15	–	–
Agent's Warrants issued	246,542	0.19		
Warrants exercised	(500,000)	0.10	(3,146,429)	0.12
Warrants expired	(8,372,500)	0.30	–	–
Warrants outstanding – end of year	27,047,397	0.15	28,173,355	0.19

A total of 15,550,855 warrants issued prior to March 2016, having an average exercise price of $0.13, are subject to an acceleration clause such that in the event that the closing price of Lupaka Gold's common shares is greater than $0.30 for a period of 20 consecutive trading days, Lupaka Gold may accelerate the expiry date of these warrants by giving notice to the holders thereof through the issuance of a press release. In such case, these warrants will expire on the 30th day after the date on which such notice is given.

BL1 Warrants

Pursuant to the closing of BL1 in June 2016, the Company issued to the lenders an aggregate of 3,750,000 non-transferrable warrants (the "BL1 Warrants"). Each BL1 Warrant, which expires June 30, 2018, entitles the holder to purchase 1 common share of the Company at a price of C$0.20 per share.

The weighted average fair value of the BL2 Warrants was estimated to be $0.09 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.20
Risk free interest rate (%)	0.52
Expected life (years)	1.0
Expected volatility (%)	155.0

BL2 Warrants
Pursuant to the closing of BL2 in January 2017, the Company issued to the lenders an aggregate of 1,500,000 non-transferrable warrants (the "BL2 Warrants"), such number being equal to the amount of the Loan divided by $0.20. Each BL2 Warrant, which expires January 12, 2019, entitles the holder to purchase one common share of the Company at a price of C$0.20 per share.

The weighted average fair value of the BL2 Warrants was estimated to be $0.10 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.20
Risk free interest rate (%)	0.77
Expected life (years)	1.5
Expected volatility (%)	145.4

May 2107 Warrants
Pursuant to the closing of the May 2017 Unit, the Company issued 2,000,000 May 2017 Warrants. Each May 2017 Warrant entitles the holder to purchase one additional common share, exercisable at $0.23 for a period of thirty-six months from closing.

The weighted average fair value of the May 2017 Warrants was estimated to be $0.06 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.23
Risk free interest rate (%)	0.72
Expected life (years)	1.5
Expected volatility (%)	134.4

BL3 Warrants

Pursuant to the closing of BL3 in June 2017, the Company issued to the lenders an aggregate of 4,000,000 non-transferrable warrants (the "BL3 Warrants"), such number being equal to the amount of the Loan divided by $0.15. Each BL3 Warrant, which expires June 30, 2018, entitles the holder to purchase one common share of the Company at a price of C$0.15 per share.

The Company's directors subsequently extended the term of the BL3 Warrants to June 30, 2019, subject to regulatory approval.

The weighted average fair value of the BL3 Warrants was estimated to be $0.05 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.15
Risk free interest rate (%)	1.09
Expected life (years)	0.75
Expected volatility (%)	112.1

Agents' Warrants
In conjunction with the receipt of Tranche 1 in August 2017 (see Note 10), the Company issued 100,844 Agent Warrants with an exercise price of $0.20, for a period of two years, expiring on August 4, 2019. The value of the Advisor Warrants is equal to 1% of the funds received, with an exercise price equal to 30% above the 5-day VWAP of the Company's shares.

The weighted average fair value of the Agents' Warrants was estimated to be $0.06 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.20
Risk free interest rate (%)	1.34
Expected life (years)	1.5
Expected volatility (%)	115.2

In conjunction with the receipt of Tranche 2 in November 2017, the Company issued 145,698 Agent Warrants with an exercise price of $0.175, for a period of two years, expiring on November 7, 2019. The value of the Advisor Warrants is equal to 1% of the funds received, with an exercise price equal to 30% above the 5-day VWAP of the Company's shares.

The weighted average fair value of the Agents' Warrants was estimated to be $0.06 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

Exercise price ($)	0.175
Risk free interest rate (%)	1.40
Expected life (years)	1.5
Expected volatility (%)	111.8

In conjunction with the receipt of Tranche 3 in February 2018, the Company issued 122,787 Agent Warrants with an exercise price of $0.255, for a period of two years, expiring on February 9, 2019. The value of the Advisor Warrants is equal to 1% of the funds received, with an exercise price equal to 30% above the 5-day VWAP of the Company's shares.

c) Share options

The Company has in place an incentive share option plan dated September 20, 2010 (the "Option Plan") for directors, officers, employees and consultants to the Company. The Option Plan provides that the directors of the Company may grant options to purchase common shares on terms that the directors may determine, within the limitations of the Option Plan, including:

- The maximum number of common shares issuable pursuant to options granted under the Option Plan shall not exceed 10% of the outstanding common shares issued at the date of grant and
- The terms of options are a minimum of one year and a maximum of ten years from the date the option is granted, with the most common option terms being two and five years.

Vesting terms are determined for each grant by the Company's Board of Directors. The options granted in the year ended December 31, 2017 vest in equal amounts beginning as early as on the date of grant and ending up to eighteen months from the date of grant.

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

	2017		2016	
	Number of share options	**Weighted average exercise price $**	**Number of share options**	**Weighted average exercise price $**
Options outstanding – beginning of period	8,672,500	0.18	8,118,750	0.34
Granted	2,410,000	0.15	2,435,000	0.16
Exercised	(460,000)	0.10	(375,000)	0.10
Forfeited	(262,500)	0.21	(367,500)	0.16
Expired	(935,000)	0.45	(1,138,750)	1.33
Options outstanding – end of period	9,425,000	0.15	8,672,500	0.18
Options exercisable – end of period	7,058,750	0.14	6,261,250	0.19

The weighted average fair value of the share options granted in the year was estimated to be $0.11 (2016 – $0. 12) per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	2017	2016
Weighted average exercise price ($)	0.11	0.12
Dividend yield	–	–
Risk free interest rate (%)	1.59	0.75
Expected life (years)	3.5	3.3
Pre-vest forfeiture rate (%)	5.0	5.0
Expected volatility (%)	128.6	131.0

Option pricing models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

The volatility was calculated using historical volatility of comparable companies as an expectation of the Company's future volatility. Non-cash share-based compensation costs of $281,000 have been recorded for the year ended December 31, 2017 (December 31, 2016 – $168,000), and allocated as follows:

In thousands of dollars	**2017** **$**	**2016** **$**
Salaries and benefits	208	120
Shareholder and investor relations	29	19
Project administration	21	20
Camp and related	8	9
Development costs (capitalized)		
Project Administration	8	–
Community	7	–
Total share-based compensation	281	168

The following table summarizes information about share options outstanding and exercisable at December 31, 2017:

		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)**
2018	0.24 – 0.40	1,445,000	0.27	0.7	1,445,000	0.27	0.7
2019	0.13	1,120,000	0.13	1.8	1,120,000	0.13	1.8
2020	0.06 – 0.15	2,260,000	0.06	2.9	2,235,000	0.06	2.9
2021	0.16	2,240,000	0.16	3.9	1,683,750	0.16	3.9
2022	0.15	2,360,000	0.15	4.8	575,000	0.15	4.8
	0.06 – 0.40	9,425,000	0.15	3.2	7,058,750	0.14	2.7

14 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2017 and 2016 are as follows:

In thousands of dollars	**2017 $**	**2016 $**
Deferred income tax assets:		
Non-capital loss carry-forwards, net	1,824	1,643
Property and equipment	6,368	9,981
Net capital loss carry-forwards	397	395
Share issuance costs	92	19
Reclamation obligation	208	97
Other	41	41
Deferred income tax assets, net	8,930	12,176
Unrecognized tax assets	(8,930)	(12,176)
	–	–

a) The tax expense differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

In thousands of dollars, except statutory rate	**2017 $**	**2016 $**
Loss for the year before income tax expense (recovery)	(14,883)	(2,221)
Average statutory rate	26.00%	26.00%
Expected income tax recovery at statutory rates	(3,870)	(577)
Non-deductible expenses	3,435	68
Effect of different tax rates in foreign jurisdictions	(452)	(27)
Difference in prior year tax returns	(489)	(262)
Expiration of tax losses	3,834	22
Difference in future and current tax rates	–	(1,249)
Impact of difference in functional and tax currencies	774	126
Amounts charged to equity	14	55
Unrecognized tax assets	(3,246)	1,844
Income tax expense	–	–

b) Losses carried forward

The Company has non-capital losses in Canada and Peru, for which deductions against future taxable income are uncertain, of approximately $12.2 million (2016 - $11.4 million) and $1.3 million (2016 - $1.9 million), respectively. The Canadian losses, if not utilized, will expire over 2029 through 2037, while the Peruvian losses, if not utilized, will expire over 2018 through 2020. Deferred income tax benefits which may arise as a result of the non-capital losses in the respective Peruvian entities have not been recognized as there is no reasonable certainty that they are likely to be realized in future periods.

15 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:

	Year ended December 31	
	2017	2016
In thousands of dollars	$	$
Loss		
Canada	2,225	716
Peru	12,658	1,505
	14,883	2,221

	As at December 31	
	2017	2016
In thousands of dollars	$	$
Total assets		
Canada	868	77
Peru	18,458	28,971
	19,326	29,048

16 Capital management

The Company's objective when managing capital structure is to maintain liquidity in order to ensure the Company's strategic acquisition, exploration, business development and production objectives are met. In the management of capital, the Company defines capital as its shareholders' equity (2017 – $11,209,000; 2016 – $25,961,000).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company intends to continue to assess new resource properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash 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.

17 Financial risk factors

(a) Financial risk exposure and risk management

The Company's activities expose it to a variety of financial risks, which include credit, liquidity, market, foreign exchange, interest rate, and commodity price risks.

Financial risk management is carried out by the Company's management team with oversight from the Company's Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (Note 1). The Company manages its liquidity risk through the management of its capital structure and assets. At December 31, 2017 and 2016, the Company's undiscounted contractual obligations and their maturity dates were as follows:

In thousands of dollars	December 31, 2017 $	December 31, 2016 $
Trade and other payables (within 1 year)	2,175	2,143
Long-term liability (2 years)	275	–
Bridge Loan 1	–	750
Bridge Loan 2 (1-5 years)	300	190
Bridge Loan 3 (within 1 year)	600	–
Deferred revenue (within 5 years)	4,579	–
Total	7,929	3,083

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, the Company's functional currency in Peru, and US Dollars. A significant change in the currency exchange rates could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations.

The Company is exposed to foreign exchange risk through the following financial assets and liabilities denominated in US Dollars ("US$"):

In thousands of US dollars	**December 31, 2017 $**	**December 31, 2016 $**
Cash	1,287	36
Current assets	–	5
Current liabilities	(690)	(622)
Long-term liabilities (PLI Financing proceeds)	(3,394)	–

Based on the above net exposure as at December 31, 2017, and assuming that all other variables remain constant, a 10% appreciation (depreciation) of the Canadian Dollar against the US Dollar would result in an increase or decrease of approximately +/- $280,000 (2016 – $78,000) in the Company's net loss for the year.

(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.

The fair values of cash, trade and other receivables and trade and other payables approximate carrying value because of their short-term nature. At December 31, 2017, the Company had marketable securities that are categorized as Level 1 in the fair value hierarchy above that are measured and recognized in the consolidated statement of financial position at fair value.

At December 31, 2017, only the deferred revenue and other metals derivative liability arising from the PLI Financing is measured and recognized in the consolidated statement of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy above. At December 31, 2016, there were no financial assets or liabilities measured and recognized in the consolidated statement of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy above.

18 Financing expenses

In thousands of dollars	**2017** **$**	**2016** **$**
Loan accretion	527	68
Financing expenses	461	-
Interest expense	155	45
Foreign exchange gain	(6)	(3)
Total	1,137	110