

# **Lupaka Gold Corp.**

**Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2018 and 2017**  
(Presented in Canadian Dollars)  
(Unaudited)

### **NOTICE TO READER**

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

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

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

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

# Lupaka Gold Corp.

## Consolidated Statements of Financial Position

As at September 30, 2018 and December 31, 2017

(presented in thousands of Canadian Dollars)

	September 30, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	608	1,656
Trade and other receivables (Note 4)	859	41
Marketable securities (Note 5)	–	3,797
Prepaid expenses and deposits	53	261
Inventory	72	–
	1,592	5,755
<b>Non-current assets</b>		
Equipment (Note 6)	270	95
Mineral property under development (Note 7)	20,410	13,240
<b>Total assets</b>	<b>22,272</b>	<b>19,090</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payables and accrued liabilities	1,890	1,321
Loans (Note 9)	532	600
Current portion of metals derivative liability (Note 11)	431	259
Current portion of deferred revenue (Note 10)	339	–
Settlement liability	275	–
Due to related parties (Note 8)	29	18
	3,496	2,198
<b>Long-term liabilities</b>		
Metals derivative liability (Note 11)	3,339	3,368
Deferred revenue (Note 10)	2,414	1,177
Reclamation and closure cost obligations (Note 12)	703	652
Settlement liability	–	275
Long-term portion of loans (Note 9)	–	211
<b>Total liabilities</b>	<b>9,952</b>	<b>7,881</b>
<b>Equity</b>		
Common shares (Note 13 (a))	59,360	58,774
Warrants (Note 13 (b))	819	1,286
Contributed surplus	5,725	4,802
Deficit	(55,304)	(54,834)
Accumulated other comprehensive income	1,720	1,181
<b>Total equity</b>	<b>12,320</b>	<b>11,209</b>
<b>Total liabilities and equity</b>	<b>22,272</b>	<b>19,090</b>

**Nature of operations and going concern** (Note 1)

**Contingencies** (Note 12)

Approved and authorized for issue by the Board of Directors on November 21, 2018

*signed "Will Ansley"*

Director

*signed "Gordon Ellis"*

Director

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

# Lupaka Gold Corp.

## Consolidated Statements of Loss and Comprehensive Loss (Income)

For the three and nine months ended September 30, 2018 and 2017

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

	Three months ended September 30		Nine months ended September 30	
	2018 \$	2017 \$	2018 \$	2017 \$
<b>Operating expenses</b>				
Exploration				
Camp, community relations and related costs, net of recoveries	(2)	340	(257)	821
Project administration	3	170	49	421
	1	510	(208)	1,242
General and administration				
Salaries and benefits	165	83	573	240
Professional and regulatory fees	136	19	214	58
Shareholder and investor relations	33	20	113	31
Office and general	17	25	82	78
Travel	11	9	33	11
	362	156	1,015	418
<b>Operating loss</b>	363	666	807	1,660
Impairment of mineral property (Note 5)	–	11,037	–	11,037
Financing expenses (Note 15)	181	343	869	498
Gain on metals derivative liability	(1,113)	–	(2,033)	–
Loss on sale of marketable securities (Note 5)	6	–	836	–
Gain on sale of equipment	–	–	(9)	–
<b>Net earnings (loss) for the period</b>	563	(12,046)	(470)	(13,195)
Other comprehensive income (loss)				
Change in fair value of available-for-sale securities	–	–	275	–
Currency translation adjustment on foreign operations	(217)	(1,257)	264	(1,290)
<b>Comprehensive income (loss) for the period</b>	346	(13,303)	69	(14,485)
<b>Weighted average number of shares outstanding</b>				
Basic	121,909,317	118,274,680	120,858,251	113,650,083
Diluted	126,294,276	118,274,680	120,858,251	113,650,083
<b>Earnings (loss) per share</b>				
Basic and diluted	\$0.00	\$(0.10)	\$(0.00)	\$(0.12)

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

# Lupaka Gold Corp.

## Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2018 and 2017

(presented in Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2018 \$	2017 \$	2018 \$	2017 \$
<b>Cash flows from (used in) operating activities</b>				
Net earnings (loss) for the period	563	(12,046)	(470)	(13,195)
Adjustment for items not affecting cash:				
Unrealized foreign exchange	17	–	(168)	–
Finance expense (loan accretion)	6	145	325	251
Share-based compensation expense	55	65	196	191
Loss on marketable securities (Note 5)	6	–	836	–
Gain on metals derivative liability	(1,113)	–	(2,033)	–
Finance expense	140	–	630	–
Write-down of mineral property	–	11,037	–	11,037
Depreciation (Note 6)	–	8	–	29
Provisions for reclamation	–	(17)	–	(5)
	(326)	(808)	(684)	(1,692)
Changes in non-cash working capital				
Trade and other receivables	(216)	1	(817)	(3)
Prepaid expenses and deposits	241	6	208	(7)
Inventory	6	–	(72)	–
Accounts payables and accrued liabilities	(738)	5	(577)	(192)
Due to related parties (Note 8)	18	28	(224)	17
<b>Net cash used in operating activities</b>	<b>(1,015)</b>	<b>(768)</b>	<b>(2,166)</b>	<b>(1,877)</b>
<b>Cash flows from (used in) investing activities</b>				
Proceeds on sale of marketable securities	(4)	–	3,395	–
Mineral property costs	(678)	(1,250)	(5,452)	(1,250)
Purchase of equipment	(7)	–	(200)	–
<b>Net cash used in investing activities</b>	<b>(689)</b>	<b>(1,250)</b>	<b>(2,257)</b>	<b>(1,250)</b>
<b>Cash flows from (used in) financing activities</b>				
PLI Financing (Note 10)	(5)	2,028	3,148	2,028
Exercise of warrants	26	–	414	50
Exercise of options	–	–	32	–
Proceeds from loans, net (Note 9)	–	–	–	706
Repayment of loans (Note 9)	–	–	(360)	–
Private placement proceeds, net (Note 13)	–	–	–	298
<b>Net cash from financing activities</b>	<b>21</b>	<b>2,028</b>	<b>3,234</b>	<b>3,082</b>
<b>Net increase (decrease) in cash</b>	<b>(1,683)</b>	<b>10</b>	<b>(1,189)</b>	<b>(45)</b>
<b>Cash- beginning of period</b>	<b>2,311</b>	<b>52</b>	<b>1,656</b>	<b>112</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(20)</b>	<b>7</b>	<b>141</b>	<b>2</b>
<b>Cash - end of period</b>	<b>608</b>	<b>69</b>	<b>608</b>	<b>69</b>

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

# Lupaka Gold Corp.

## Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2018 and 2017

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

	For the nine months ended September 30,			
	2018		2017	
	Number	\$	Number	\$
<b>Common shares (Note 13 (a))</b>				
Balance – beginning of period	118,734,680	58,774	115,474,680	58,419
Issued pursuant to a private placement	–	–	2,000,000	168
Shares issued for debt	–	–	300,000	45
Share purchase warrants exercised	2,841,430	531	500,000	65
Stock options exercised	433,750	55	–	–
Balance – end of period	122,009,860	59,360	118,274,680	58,697
<b>Share purchase warrants (Note 13 (b))</b>				
Balance – beginning of period		1,286		1,366
Issued pursuant to a private placement		–		129
Issued pursuant to loans (Note 9)		245		332
Share purchase warrants exercised		(117)		(14)
Share purchase warrants expired		(430)		–
Share purchase warrants canceled		(184)		–
Agent’s warrants issued pursuant to PLI Financing (Note 10)		19		5
Balance – end of period		819		1,818
<b>Contributed surplus</b>				
Balance – beginning of period		4,802		4,012
Share-based compensation		331		190
Share purchase warrants canceled		184		–
Share purchase warrants expired		430		–
Stock options exercised		(22)		–
Balance – end of period		5,725		4,202
<b>Deficit</b>				
Balance – beginning of period		(54,834)		(39,951)
Net loss for the period		(470)		(13,195)
Balance – end of period		(55,304)		(53,146)
<b>Accumulated other comprehensive income</b>				
Balance – beginning of period		1,181		2,115
Change in fair value of available-for-sale securities		275		–
Currency translation adjustment on foreign operations		264		(1,290)
Balance – end of period		1,720		825
Total equity		12,320		12,396

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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

### 1 Nature of operations and going concern

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 head office is located at #1413 - 181 University Avenue, Toronto, Ontario, M5H 3M7 and its registered and records office is located at Suite 1000 – 595 Howe Street, Vancouver, British Columbia, V6C 2T5. 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”.

These condensed consolidated interim financial statements are prepared using International Financial Reporting Standards (“IFRS”) that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

If the going concern assumption was not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used, and such adjustments would be material. Several adverse conditions cast significant doubt upon the validity of the going concern assumption. As at September 30, 2018, the Company has a working capital deficit of \$1,904,000, an accumulated deficit of \$55,304,000, and negative cash flow from operating activities of \$2,166,000.

The Company’s ability to continue as a going concern is dependent upon its ability to generate positive cash flow from operating activities or to raise funds primarily through the issuance of shares or obtain alternative financing, which it has been successful in doing so in the past. However, there is no certainty that sufficient financing can be obtained in the future.

As the outcome of these matters cannot be predicted at this time, if the Company is unable to generate positive cash flow from operating activities or obtain additional financing, management may be required to further curtail certain expenses.

### 2 Basis of preparation

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

#### 2.1 Reclassification of comparative figures

Certain comparative figures as at December 31, 2017 have been changed as a result of a reclassification of such figures.

#### 2.2 Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”). As such, these interim financial statements do not include all of the information required by IFRS for annual financial statements and should be read

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017.

These interim statements also follow the same accounting policies and methods of computation as compared to the most recent consolidated financial statements for the year ended December 31, 2017, in addition to any new accounting policies applicable for the nine months ended September 30, 2018.

These unaudited condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 21, 2018.

### **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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements, the Company is required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements.

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.



# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

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 2018 (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. By September 30, 2018, all of the three Tranches were received, and the fair value of the Other Metals Option is included in Metals derivative liability.

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).

Going concern assumption – presentation of the condensed consolidated interim financial statements which assumes that the Company will continue in operation for the foreseeable future, will obtain additional financing as required, and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

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

Determination of cash-generating units – for the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or outflows (cash-

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

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.

### **2.4 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**

Readers are advised that a complete listing of the Company's accounting policies can be found in the Company's audited consolidated financial statements for the year ended December 31, 2017.

These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements are presented in Canadian Dollars, which is Lupaka's and AAG's functional currency.

Effective January 1, 2018 the Company determined that the functional currency of LGP, IMC, AES and Greenhydro is the United States Dollars ("USD"). This change in functional currency arose due to a change in their primary economic environments, including financings primarily in USD and a majority of costs in USD as the Company transitions to development and then to production at its Invicta Gold Development Project. Previously the functional currency of LGP, IMC, AES and Greenhydro was the Peruvian Sol.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

### 3.2 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, as set out below. Pronouncements that are not applicable to the Company have been excluded from this note.

*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’s unaudited condensed consolidated interim financial statements were not affected by IFRS 9.

*IFRS 15 - Revenue from Contracts with Customers* - In April 2017, 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 early-adopted this standard effective for the year ended December 31, 2017 - there was no impact resulting from such early adoption.

*IFRS 16 - Leases* - IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases that is currently required by IAS 17 Leases and, instead, introduces a single lessee accounting model. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17.

Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently. The Company has no leases and Management does not expect any material impact as result of the application of this new standard. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

### 4 Trade and other receivables

The Company’s trade and other receivables consist primarily of goods and services taxes due from the Governments of Canada and Peru. The Company anticipates full recovery of its outstanding trade and other receivables within one year.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(presented in Canadian Dollars)

### 5 Marketable securities

On November 20, 2017, the Company closed (the "Closing") a definitive sales and purchase agreement (the "SPA") to sell all of its interests in its previously held Crucero Project ("Crucero") to GoldMining Inc. ("GoldMining"). Pursuant to the SPA, GoldMining acquired all of the shares of a wholly owned subsidiary of the Company, which held a 100% interest in Crucero for \$750,000 in cash and 3,500,000 common shares of GoldMining, for total consideration having a fair market value of \$5,720,000 as of the Closing.

The aggregate consideration received from GoldMining of \$5,720,000 was credited to exploration and evaluation assets and an impairment of mineral property at September 30, 2017 of \$11,037,000, calculated as follows:

<i>In thousands of dollars</i>	<i>\$</i>
Consideration from GoldMining	
Common shares of GoldMining	4,970
Cash	750
Total consideration	5,720
Crucero Project, carried cost	(16,757)
Impairment of mineral property	11,037

On November 20, 2017 ("Closing Date"), the Company closed the sale of its Crucero Gold Project and acquired the 3,500,000 common shares of Goldmining Inc. (TSXV: GOLD, the "GOLD Shares"), which the Company classified as an available-for-sale financial asset. During 2017 the Company sold 645,400 GOLD Shares, realizing a loss of \$81,000.

During the nine months ended September 30, 2018, the Company sold its remaining 2,854,600 GOLD shares, realizing a total loss of \$836,000 for the nine months ended September 30, 2018 on its GOLD shareholdings.

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## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(presented in Canadian Dollars)

### 6 Equipment

	Vehicles and field equipment \$	Office equip and furniture \$	Total \$
<i>In thousands of dollars</i>			
<b>Cost</b>			
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
Additions	7	193	200
Disposals	–	(22)	(22)
Foreign exchange	9	6	15
Balance as at September 30, 2018	291	263	554
<b>Accumulated depreciation</b>			
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
Depreciation	21	8	29
Disposals	–	(22)	(22)
Foreign exchange	6	5	11
Balance as at September 30, 2018	210	74	284
<b>Carrying amounts</b>			
Balance as at December 31, 2017	92	3	95
Balance as at September 30, 2018	81	189	270

During the nine months ended September 30, 2018, \$29,000 (2017 – \$Nil) of depreciation was capitalized to the Invicta mineral property under development, \$Nil (2017 – \$26,000) was included in project administration expense and \$Nil (2017 – \$3,000) was included in office and general expense.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(presented in Canadian Dollars)

### 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.

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.

Proceeds received for concentrate produced prior to the commencement of commercial production have been deducted from mineral property under development.

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

<i>In thousands of dollars</i>	<b>Acquisition Costs</b> \$	<b>Concession Fees</b> \$	<b>Infra- structure</b> \$	<b>Community</b> \$	<b>Project Admin</b> \$	<b>Total</b> \$
<b>Cost</b>						
Balance, December 31, 2017	11,714	59	816	633	18	13,240
Additions	–	104	5,027	614	957	6,702
Foreign exchange	388	3	51	22	4	468
Balance, September 30, 2018	12,102	166	5,894	1,269	979	20,410

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(presented in Canadian Dollars)

### 8 Related party transactions

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

#### (a) Related party expenditures

During the nine months ended September 30, 2018, the Company:

- paid \$10,000 for shareholder and investor relations services to Havilah Holdings Inc. (“Havilah”), a company wholly-owned by Geoff Courtall;
- paid companies controlled by Gordon Ellis, \$61,000 (including \$4,900 of interest) in April 2018 as full and complete payment of advances made in 2017;
- paid \$58,000 for truck rental services to Quasar Asociados S.R.L., a company owned by the spouse of a related party; and
- paid \$32,400 in interest payments for the first six months of 2018 related to the Company’s bridge loans, to a former officer, a director and former director and/or companies controlled by them or a related party. As at September 30, 2018, these individuals’ bridge loan holdings comprise all \$90,000 of BL2 and all \$450,000 of BL3 and \$16,200 in interest related to BL2 and BL3 was accrued to these directors and officers for the three months ended September 30, 2018.

#### (b) Key management compensation

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

	Three months ended		Nine months ended	
	September 30		September 30	
<i>In thousands of dollars</i>	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries, fees and benefits	177	64	477	146
Share-based compensation	69	52	273	140
Total	246	116	750	286

#### (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 September 30, 2018, \$29,450 was payable to an officer, director and a company controlled by a related party for services rendered and \$275,000 is payable in April 2019 to a former CEO of the Company pursuant to a March 2018 settlement agreement between the parties and included in Other Liability.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(presented in Canadian Dollars)

### 9 Loans

#### *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 (being January 12, 2019).

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

In May 2018, the Company paid \$210,000 in principal plus \$9,000 of accrued interest to noteholders who requested repayment in accordance with the terms of BL2.

The recorded value of the remaining BL2 balance as at September 30, 2018 is partially accreted and included in Current Liabilities on the consolidated statements of financial statements of financial position is as follows:

<i>In thousands of dollars</i>	<b>Liability</b> \$	<b>Equity</b> \$
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
Loan accretion	81	–
Loans repaid	(210)	–
Balance, September 30, 2018	82	146



# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

### *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.

In May 2018 the Company’s directors extended the term of the BL3 loan to June 30, 2019. As a result of the extension, the previously issued BL3 warrants (“BL3a”) were canceled and new BL3 warrants (“BL3b”) were issued – see Note 13.

Also in May 2018, the Company paid \$150,000 in principal plus \$6,000 of accrued interest to noteholders who requested repayment in accordance with the terms of BL3.

The recorded value of the BL3 balance as at September 30, 2018 is fully accreted and included in Current Liabilities on the consolidated statements of financial statements of financial position, as follows:

<i>In thousands of dollars</i>	<b>Liability</b> \$	<b>Equity</b> \$
Balance, January 1, 2017	–	–
BL3 proceeds	600	–
Fair value of BL3a Warrants issued (see Note 13)	(185)	185
BL3 issue costs allocated	(2)	(1)
Loan accretion	187	–
Balance, December 31, 2017	600	184
Loans repaid	(150)	–
Fair value of BL3b Warrants issued (see Note 13)	(245)	245
Finance expense	245	–
Balance, September 30, 2018	450	429

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

### 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.

By March 31, 2018, all of the three Tranches were received, with the fair value of the Other Metals Option included in Metals derivative liability.

#### *Invicta financing*

By agreement dated June 30, 2017 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 Development 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.

As part of the PLI Financing Agreement, the Company is required to maintain a fully executed mineral offtake agreement at all times. The Company obtained a waiver of this requirement as part of receiving the proceeds from Tranche 2 and Tranche 3. The Company and PLI are in discussions with several mineral offtakers and anticipate entering into a mineral offtake agreement during Q4/18.

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 related to Tranche 3, which were included in financing expenses in the statement of loss by March 31, 2018:

1. Cash consideration of \$252,000, (US\$200,000) (“Agents’ Fees”), equivalent to 8% of the funds received; and
2. Agents’ Warrants, with a Black Scholes valuation of \$19,000, equivalent to 1% of the funds received, with an exercise price of \$0.255, and a two-year term expiring on February 9, 2020, respectively (See Note 13 (b)).

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

As at September 30, 2018, deferred revenue is comprised as follows:

	September 30, 2018		December 31, 2017	
	CAD \$	USD \$	CAD \$	USD \$
<i>In thousands of dollars</i>				
Opening balance	1,177	938	–	–
Tranches, net	3,224	2,500	4,531	3,600
Less: Other metals derivative liability	(2,050)	(1,590)	(3,416)	(2,723)
Financing fee accretion	359	278	79	61
Foreign exchange	43	–	(17)	–
Closing balance	2,753	2,126	1,177	938
Current portion	339	262	–	–
Long-term portion	2,414	1,864	1,177	938
Total	2,753	2,126	1,177	938

For the three and nine months ended September 30, 2018, the financing fee accretion was \$141,000 and \$359,000, respectively (2017 -- \$Nil and \$Nil, respectively), and the foreign exchange was \$(46,000) and \$43,000, respectively (2017 – \$Nil and \$Nil, respectively).

### 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 during the tenure of the PLI Financing Agreement.

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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

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 2 and the revaluation of Tranche 1 during the period ended December 31, 2017:

	<b>Silver (oz)</b>	<b>Copper (tonne)</b>	<b>Lead (tonne)</b>	<b>Zinc (tonne)</b>
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%

The following assumptions were applied to the initial valuation of Tranche 3 received and the revaluation of Tranche 1 and Tranche 2 during the quarter ended March 31, 2018:

	<b>Silver (oz)</b>	<b>Copper (tonne)</b>	<b>Lead (tonne)</b>	<b>Zinc (tonne)</b>
Quantity	180,034	1,209	964	885
Metal price (\$ per unit)	US\$16.22	US\$6,038	US\$3,297	US\$3,278
Exercise price (\$ per unit)	US\$15.62	US\$5,497	US\$2,051	US\$2,453
Risk free interest rate (%)	2.18%	2.18%	2.18%	2.18%
Expected life (years)	5.00	5.00	5.00	5.00
Expected volatility (%)	24.7%	18.9%	21.1%	17.9%

The following assumptions were applied to the revaluation of Tranche 1, Tranche 2 and Tranche 3 as at September 30, 2018:

	<b>Silver (oz)</b>	<b>Copper (tonne)</b>	<b>Lead (tonne)</b>	<b>Zinc (tonne)</b>
Quantity	179,190	1,200	964	884
Metal price (\$ per unit)	US\$14.62	US\$5,574	US\$2,032	US\$2,596
Exercise price (\$ per unit)	US\$15.62	US\$5,497	US\$2,051	US\$2,453
Risk free interest rate (%)	2.32%	2.32%	2.32%	2.32%
Expected life (years)	4.50	4.50	4.50	4.50
Expected volatility (%)	21.2%	19.0%	22.0%	19.3%

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

The fair value of the Metals Derivative Liability is comprised as follows:

	At September 30, 2018		At December 31, 2017	
	CAD \$	USD \$	CAD \$	USD \$
<i>In thousands of dollars</i>				
Opening balance	3,627	2,891	–	–
Additions: Tranche derivative liability	2,050	1,590	3,416	2,723
Upside payments	(5)	(4)	–	–
Revaluation	(2,033)	(1,565)	210	168
Foreign exchange	131	–	1	–
Closing balance	3,770	2,912	3,627	2,891
Current portion	431	333	259	206
Long-term portion	3,339	2,579	3,368	2,685
Total	3,770	2,912	3,627	2,891

For the three and nine months ended September 30, 2018, the revaluation reduced the liability by \$1,113,000 and \$2,033,000, respectively (2017 – \$Nil and \$Nil, respectively) and the foreign exchange impact was \$(73,000) and \$131,000, respectively (2017 – \$Nil and \$Nil, respectively).

## 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. Consequently, the Company records a reclamation provision.

The provision has been measured at the estimated value of future rehabilitation costs and an 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 8.2%. Periodically the Company reviews the estimate of future costs of the requisite reclamation and closure work required by current legislative standards. The present value of the estimated future cash outflows to meet required legislative standards for reclamation and closure work is \$703,000 (US \$909,000 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.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

### 13 Equity

a) Common shares

Authorized: unlimited with no par value.

During the nine months ended September 30, 2018, 3,275,180 common shares were issued for proceeds of \$446,700 from the exercise of 2,841,430 share purchase warrants for proceeds of \$414,250 at a weighted average price of \$0.146 per share and 433,750 stock options were exercised for proceeds of \$32,450 at a weighted average price of \$0.075 per share.

b) Share purchase warrants

The Company has the following share purchase warrants outstanding as at September 30, 2018:

Year of Expiry	Range of exercise prices \$	Outstanding and Exercisable		
		Number of warrants outstanding	Weighted average exercise price \$	Weighted average remaining contractual life (years)
2018	0.10	370,713	0.10	0.3
2019	0.10 – 0.20	12,279,875	0.14	0.5
2020	0.23 – 0.26	2,122,787	0.23	1.6
	0.10 – 0.26	14,773,375	0.15	0.7

Following is a continuity schedule for the Company's warrants, for the nine-month periods ended September 30:

	2018		2017	
	Number of share purchase warrants	Weighted average exercise price \$	Number of share purchase warrants	Weighted average exercise price \$
Warrants outstanding – beginning of period	27,047,397	0.15	28,173,355	0.19
Placement Warrants issued	–	–	2,000,000	0.23
Agent's Warrants issued	122,787	0.26	100,844	0.20
Bridge Loan 2 Warrants issued	–	–	1,500,000	0.20
Bridge Loan 3b Warrants issued	3,333,333	0.18	4,000,000	0.15
Bridge Loan 3a Warrants canceled	(4,000,000)	0.15	–	–
Warrants exercised	(2,841,430)	0.15	(500,000)	0.10
Warrants expired	(8,888,712)	0.17	(8,372,500)	0.30
Warrants outstanding – end of period	14,773,375	0.15	26,901,699	0.15

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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(presented in Canadian Dollars)

A total of 7,570,713 warrants issued prior to March 2017, all having an exercise price of \$0.10, 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 2017, the Company issued to the lenders an aggregate of 3,750,000 non-transferrable warrants (the "BL1 Warrants"). Each BL1 Warrant entitled 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 \$0.09 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

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

During the quarter ended June 30, 2018, 650,000 BL1 warrants were exercised. On June 30, 2018, the remaining 3,100,000 BL1 warrants expired.

### *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

As at September 30, 2018, there were 1,500,000 BL2 warrants outstanding.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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### *May 2017 Warrants*

Pursuant to the closing of the May 2017 private placement, 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

As at September 30, 2018, there were 2,000,000 May 2017 Warrants outstanding.

### *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 “BL3a Warrants”), such number being equal to the amount of the Loan divided by \$0.15. The BL3a Warrants, which were to expire June 30, 2018, entitled the holder to purchase one common share of the Company at a price of \$0.15 per share.

In May 2018, the Company’s directors extended the term of the BL3 loan to June 30, 2019. As a result of the extension the 4,000,000 outstanding warrants were canceled and 3,333,333 new non-transferrable warrants were issued (the “BL3b Warrants”), such number being equal to the amount of the Loan divided by \$0.18. The BL3b Warrants, which expire June 30, 2019, entitle the holder to purchase one common share of the Company at a price of \$0.18 per share.

Also, in May 2018, the Company paid \$150,000 in principal plus \$6,000 of interest to noteholders who requested repayment in accordance with the terms of BL3. Because of the early repayment, the expiry date of the BL3b Warrants held by those noteholders was changed to June 4, 2019, one year from the issuance of the warrants.

The weighted average fair value of the BL3b Warrants was estimated to be \$0.07 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	<b>2018</b>
Weighted average exercise price (\$)	0.18
Dividend yield	—
Risk free interest rate (%)	2.0
Expected life (years)	1.0
Pre-vest forfeiture rate (%)	0
Expected volatility (%)	102.8

As at September 30, 2018, there were 3,333,333 BL3b Warrants outstanding.



# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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### *Agents' Warrants*

In conjunction with the receipt of Tranche 1 in August 2017 (see Note 10), the Company issued 100,844 Agents' Warrants with an exercise price of \$0.20, for a period of two years, expiring on August 4, 2019. The value of the Agents' 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 fair value of the Tranche 1 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

As at September 30, 2018, there were 100,844 Tranche 1 Agents' Warrants outstanding.

In conjunction with the receipt of Tranche 2 in November 2017, the Company issued 145,698 Agents' Warrants with an exercise price of \$0.175, for a period of two years, expiring on November 7, 2019. The value of the Agents' 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 fair value of the Tranche 2 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:

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

As at September 30, 2018, there were 145,698 Tranche 2 Agents' Warrants outstanding.

In conjunction with the receipt of Tranche 3 in February 2018, the Company issued 122,787 Agents' Warrants with an exercise price of \$0.255, for a period of two years, expiring on February 9, 2020. The value of the Agents' 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 fair value of the Tranche 3 Agents' Warrants was estimated to be \$0.15 per warrant at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

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Exercise price (\$)	0.26
Risk free interest rate (%)	1.77
Expected life (years)	2.0
Expected volatility (%)	118.7

As at September 30, 2018, there were 122,787 Tranche 3 Agents' Warrants outstanding.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

### 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 nine months ended September 30, 2018 vest in equal amounts beginning as early as on the date of grant and up to eighteen months from the date of grant.

A summary of changes to share options outstanding and exercisable for the nine-month period ended September 30 is as follows:

	<b>2018</b>		<b>2017</b>	
	<b>Number of share options</b>	<b>Weighted average exercise price \$</b>	<b>Number of share options</b>	<b>Weighted average exercise price \$</b>
Options outstanding – beginning of period	9,425,000	0.15	8,672,500	0.18
Granted	1,800,000	0.23	1,160,000	0.15
Exercised	(433,750)	0.07	–	–
Forfeited	(156,250)	0.16	(7,500)	0.16
Expired	(305,000)	0.38	–	–
Options outstanding – end of period	10,330,000	0.16	9,825,000	0.17
Options exercisable – end of period	8,342,500	0.15	7,752,500	0.18

The weighted average fair value of the share options granted in the nine-month period ended September 30, 2018 was estimated to be \$0.16 per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	<b>2018</b>
Weighted average exercise price (\$)	0.23
Dividend yield	–
Risk free interest rate (%)	2.0
Expected life (years)	3.4
Pre-vest forfeiture rate (%)	10.9
Expected volatility (%)	112.5

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 the Company’s shares as an expectation of the Company’s future volatility.

# Lupaka Gold Corp.

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(presented in Canadian Dollars)

Non-cash share-based compensation costs of \$331,000 have been recorded for the nine months ended September 30, 2018 (September 30, 2017 – \$191,000), and allocated as follows:

<i>In thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Salaries and benefits	48	53	177	142
Shareholder and investor relations	7	4	19	20
Project administration	–	6	–	21
Camp and related	–	2	–	8
<u>Development costs (capitalized)</u>				
Project Administration	24	–	113	–
Community	6	–	22	–
<b>Total share-based compensation</b>	<b>85</b>	<b>65</b>	<b>331</b>	<b>191</b>

The following table summarizes information about share options outstanding and exercisable at September 30, 2018:

Year of Expiry	Range of exercise prices \$	Number of options outstanding	Outstanding		Exercisable		
			Weighted average exercise price \$	Weighted average remaining contractua l life (years)	Number of options exercisable	Weighted average exercise price \$	Weighted average remaining contractua l life (years)
2018	0.24	1,100,000	0.24	0.1	1,100,000	0.24	0.1
2019	0.13	1,030,000	0.13	1.1	1,030,000	0.13	1.1
2020	0.06	1,840,000	0.06	2.1	1,840,000	0.06	2.1
2021	0.16 – 0.18	2,325,000	0.16	3.1	2,262,500	0.16	3.1
2022	0.15	2,360,000	0.15	4.1	1,485,000	0.15	4.1
2023	0.23 – 0.24	1,675,000	0.23	4.5	625,000	0.23	4.5
	0.06 – 0.24	10,330,000	0.16	2.9	8,342,500	0.15	2.5

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(presented in Canadian Dollars)

### 14 Segmented information

The Company operates in one segment, being mineral exploration and development. Earnings (losses) for the period and total assets by geographic location are as follows:

<i>In thousands of dollars</i>	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	2018	2017	2018	2017
Earnings (loss)				
Canada	691	(499)	270	(916)
Peru	(128)	(11,547)	(740)	(12,279)
	563	(12,046)	(470)	(13,195)

<i>In thousands of dollars</i>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Total assets		
Canada	588	632
Peru	21,684	18,458
	22,272	19,090

### 15 Financing expenses

<i>In thousands of dollars</i>	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	2018	2017	2018	2017
Financing expenses	141	168	631	168
Foreign exchange gain (loss)	17	(19)	(168)	(32)
Interest expense	17	49	81	111
Loan accretion	6	145	325	251
Total	181	343	869	498