Lupaka Gold Corp.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2020 and 2019
(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.

Lupaka Gold Corp.

Unaudited Condensed Consolidated Statements of Financial Position
As at June 30, 2020 and 2019

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

	June 30, 2020	**December 31, 2019**
Assets		
Current assets		
Cash	80	76
Receivables (Note 4)	4	11
Prepaid expenses and deposits	4	12
	88	99
Non-current assets		
Equipment (Note 5)	1	1
Total assets	89	100
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	737	760
Due to related parties (Note 7)	29	29
Due to PLI (Note 8 (a))	22,200	20,847
Total liabilities	22,966	21,636
Shareholders' Equity		
Common shares (Note 9 (a))	59,725	59,625
Warrants (Note 9 (b))	1,376	1,524
Contributed surplus	6,889	6,709
Deficit	(90,025)	(88,552)
Accumulated other comprehensive income (loss)	(842)	(842)
Total equity	(22,877)	(21,536)
Total liabilities and equity	89	100

Nature of operations and going concern (Note 1)
Subsequent events (Note 8 (a))

Approved and authorized for issue by the Board of Directors on August 27, 2020

signed "Gordon Ellis"
Director

signed "Mario Stifano"
Director

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

Lupaka Gold Corp.

Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended June 30, 2020 and 2019

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

	2020	2019	2020	2019
Operating expenses				
General and administration				
Salaries, benefits and fees	38	202	60	343
Professional and regulatory fees	23	17	32	45
Office and general	8	15	12	36
Shareholder and investor relations	2	13	5	34
Travel	-	3	-	5
Operating loss	71	250	109	463
Loss on re-measurement of PLI liability (Note 8)	(757)	-	1,353	-
Financing expenses (Note 12)	(9)	162	11	322
Gain on metals derivative liability	-	(1,015)	-	(284)
Interest income	-	(1)	-	(1)
Net loss (earnings) for the period	(695)	(604)	1,473	500
Other comprehensive loss (income)				
Items that may be reclassified to profit or loss				
Currency translation adjustment on foreign operations	-	319	-	643
Comprehensive loss (income) for the period	(695)	(285)	1,473	1,143
Weighted average number of shares outstanding				
Basic	149,058,819	148,509,368	149,058,819	138,127,796
Diluted	149,058,819	148,579,614		
Loss (earnings) per share, basic and diluted	($0.00)	($0.00)	$0.01	$0.00

Lupaka Gold Corp.

Unaudited Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2020 and 2019

(presented in Thousands of Canadian Dollars)

	2020	2019
Cash flows from (used in) operating activities		
Net (loss) for the period	(1,473)	(500)
Adjustment for items not affecting cash:		
Loss on re-measurement of PLI liability (Note 8)	1,353	-
Unrealized foreign exchange	-	(15)
Finance expense (loan accretion)	-	1
Share-based compensation expense (Note 9)	32	91
Gain on metals derivative liability	-	(284)
Finance expense	-	328
	(88)	(379)
Changes in non-cash working capital		
Trade and other receivables	7	7
Prepaid expenses and deposits	8	23
Inventory	-	2
Accounts payables and accrued liabilities	(23)	172
Due to related parties (Note 7)	-	(21)
Net cash used in operating activities	(96)	(196)
Cash flows used in investing activities		
Mineral property costs	-	(427)
Net cash used in investing activities	-	(427)
Cash flows from financing activities		
Proceeds from private placement, net (Note 9)	100	636
Net cash from financing activities	100	636
Net increase (decrease) in cash	4	13
Cash- beginning of period	76	233
Effect of foreign exchange rate changes on cash	-	(6)
Cash - end of period	80	240

Lupaka Gold Corp.

Unaudited Condensed Consolidated Statements of Changes in Equity
For the six months ended June 30, 2020 and 2019

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

	2020		2019	
	Number	$	Number	$
Common shares (Note 9 (a))				
Balance - beginning of period	148,509,368	59,625	122,009,860	59,360
Issued pursuant to private placements	5,000,000	100	11,083,333	31
Shares issued for debt	-	-	15,416,175	234
Balance - end of period	153,509,368	59,725	148,509,368	59,625
Share purchase warrants (Note 9 (b))				
Balance - beginning of period		1,524		813
Issued pursuant to a private placement		-		587
Shares-for-debt warrants issued		-		772
Finders warrants issued pursuant to private placement		-		17
Share purchase warrants expired		(148)		(391)
Balance - end of period		1,376		1,798
Contributed surplus				
Balance - beginning of period		6,709		5,845
Share-based compensation		32		125
Share purchase warrants expired		148		391
Balance - end of period		6,889		6,361
Deficit				
Balance - beginning of period		(88,552)		(54,519)
Net loss for the period		(1,473)		(500)
Balance - end of period		(90,025)		(55,019)
Accumulated other comprehensive income				
Balance - beginning of period		(842)		1,636
Currency translation adjustment on foreign operations		-		(643)
Balance - end of period		(842)		993
Total shareholders’ equity		(22,877)		13,758

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

1 Nature of operations and going concern

Lupaka Gold Corp. ("Lupaka" or "the Company") 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.

Lupaka's head office, and records and registered offices are located at 1569 Dempsey Road, North Vancouver, BC V7K 1S8. 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".

The Company presently does not have any active projects as a result of its loss of ownership of the Invicta Gold Project ("Invicta") to PLI Huaura Holdings LP ("PLI"; see Note 8). However, management is continuing to actively seek out gold exploration projects for potential development and investment.

Going Concern

These Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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.

As at June 30, 2020, the Company has a working capital deficit (current assets less current liabilities) of $22,878,000 (December 31, 2019 - $21,537,000 deficit) and accumulated deficit of $90,025,000 (December 31, 2019 - accumulated deficit of $88,552,000). For the six months ended June 30, 2020, the Company incurred a loss of $1,473,000 (2019 - $500,000) and used cash in operating activities of $96,000 (six months ended June 30, 2019 - $196,000) – See also Note 8 (a).

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 obtaining alternative financing, which it has been successful in doing so in the past. There can be no assurance that sufficient financing can be obtained in the future. As a result, there are material uncertainties that cast significant doubt about the Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business.

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 will be required to further curtail certain expenses.

In 2020, there has been a global outbreak of coronavirus (COVID-19) that has resulted in changes in global supply and demand of certain mineral and energy products. These changes, including a potential economic downturn and any potential resulting direct and indirect negative impact to the Company cannot be determined, but they could have a potential material impact to the Company's activities, cash flows, liquidity and its ability to raise additional capital. Various restrictions on gatherings, work and access to remote communities near the Company's potential/future projects may also impact the Company's ability to perform operational activities.

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 unaudited condensed consolidated interim financial statements ("consolidated 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 in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019, in addition to any new accounting policies applicable for the period ended June 30, 2020.

These consolidated financial statements were approved by the Company's Board of Directors on August 27, 2020.

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 wholly-owned subsidiaries, which are as follows:

- 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, until the loss of control of IMC on July 2, 2019. See Note 8.
- Andean Exploraciones S.A.C. ("AES"), a Peru company (inactive)
- Greenhydro S.A.C. ("Greenhydro"), a Peru company (inactive)

Basis of preparation (continued)

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.

Valuation of the derivative related to deferred revenues - Management has determined that, as a result of PLI's termination, the carrying value of the derivative related to deferred revenues is Nil. See Note 8 for the discussion of the fair valuation of the PLI liability.

Going concern assumption - presentation of the consolidated 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.

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.

2.6 Related parties

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

3 Significant accounting policies

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.

Significant accounting policies (continued)

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 (until the loss of control of IMC on July 2, 2019), AES and Greenhydro is United States Dollars ("USD").

(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; and

(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 Financial assets and other financial liabilities

a) Financial Assets at Amortized Cost
Cash and other receivables with fixed or determinable payments that are not quoted in an active market are classified as held at amortized cost. Such assets are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss relating to receivables, if any, is based on a review of all outstanding amounts at period end.

Significant accounting policies (continued)

b) Financial Assets at Fair Value Through Other Comprehensive Income ("FVOCI")

Financial assets at FVOCI are equity securities that are not held for trading and which the Company has irrevocably elected at initial recognition to recognize in this category. Gains and losses arising from changes in fair value are recorded in other comprehensive income ("OCI"). When these equity securities are disposed, any related balance within FVOCI is classified to retained earnings and will not be reclassified to profit or loss.

c) Financial Liabilities at Amortized Cost

Financial liabilities are measured at amortized cost unless they are required to be measured at fair value through profit and loss ("FVTPL"), such as instruments held for trading or derivatives, or where the Company has opted to measure such liabilities at FVTPL. The amount due to PLI is measured at FVTPL.

Financial liabilities are recognized initially at fair value and subsequently measured at amortized cost and include accounts payable and accrued liabilities, loans, settlement liabilities and amounts due to related parties. Accounts payables and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable, accrued and settlement liabilities are measured at amortized cost using the effective interest method. Loans are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

De-Recognition of Financial Assets and Liabilities

A financial asset is de-recognized when the contractual right to the asset's cash flows expire or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

4 Receivables

a) Receivables - consist of goods and services taxes due from the Government of Canada. The Company anticipates full recovery of its current receivables within one year; and

b) Receivable from IMC - with the Company's loss of its ownership of Invicta Mining Corp. ("IMC"; see Note 8), net intercompany advances previously made by Lupaka or its corporate assignees to IMC total approximately US$15.97 million including interest. However, as the parties have executed mutual releases (see Note 8 a)) the collectability from IMC and/or its owners is no longer possible. Consequently, the Company's carrying value for accounting purposes for the IMC receivable as at June 30, 2020 is $Nil.

5 Equipment

During the year ended December 31, 2019, the Company de-recognized assets on loss of control of IMC and wrote down LGP's net assets. The remaining carrying value of the Company's equipment as at June 30, 2020 was approximately $1,000.

6 Mineral property under development

With the Company's loss of its ownership and control of IMC and all its assets and liabilities, the Company adjusted the carrying value of all of the components of the Invicta mineral property under development costs to Nil. See also Note 8.

7 Related party transactions

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

a) Related party expenditures

During the six months ended June 30, 2020, the Company had no related party expenditures.

(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 for the three and six months ended June 30, 2020 and 2019 is shown below:

	Three months ended June 30		**Six months ended June 30**	
In thousands of dollars	**2020**	**2019**	**2020**	**2019**
Salaries, fees and benefits	5	67	18	361
Share-based compensation	15	47	28	115
Total	20	114	46	476

(c) Due to current and former 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 June 30, 2020:

- $27,300 was payable to Havilah and $2,100 was payable to ABE for services rendered in 2019 and prior years, both of which are included in Due to Related Parties. Havilah Holdings Inc. ("Havilah") is a co-owner of K-Rok Minerals Inc., a >10% shareholder of the Company, which is owned 60% by ABE Industries Inc. ("ABE"), 35% by Havilah and 5% by another individual. ABE is wholly-owned by Gordann Consultants Ltd., a company in which Gordon Ellis owns a 51% interest and his wife, Margaret Ellis, owns a 49% interest. Gordon Ellis is the Chairman and CEO of the Company and a director, and through his spousal and corporate ownerships is a greater than 10% shareholder of the Company ;
- $20,696 was payable to a former CEO of the Company for previously deferred salary, which is included in Accounts Payable;
- $15,641 was payable to a former CFO of the Company for outstanding management fees, which is included in Accounts Payable; and
- $266,750 was payable to a former CEO of the Company pursuant to a March 2018 settlement agreement between the parties, which is included in Accounts Payable.

8 Due to PLI and loss on re-measurement of PLI liability

a) PLI Financing Agreement, Notice of Default and Early Termination, and Signing of Mutual Releases

By agreement dated June 30, 2016 and amended August 2, 2017, the Company executed the PLI Financing Agreement with PLI to fund US$7 million for the completion of development and to initiate production at IMC's Invicta Gold Project - see Deferred Revenue below.

On July 2, 2019, the Company received a formal Notice of Acceleration ("Acceleration Notice") from PLI regarding the PLI Financing Agreement. The Acceleration Notice claims that as a result of existing specified claims of alleged default, PLI declared an early termination date of the loan and requested immediate payment of approximately US$15.6 million. In October 2019, the Company was advised that PLI had seized all of the ownership shares of IMC, effective July 2, 2019, resulting in the Company losing all of its control of IMC and Invicta.

On November 12, 2019, the Company received a Notice of Indemnification and Reservation of Rights letter dated November 8, 2019 from PLI Huaura Holdings L.P., which primarily demanded that the Company make the indemnification payments to PLI in respect of the PLI Financing Agreement (which PLI claims, as of October 31, 2019, totals an aggregate of approximately US$16 million), and all other amounts outstanding under the PLI Financing Agreement were to be paid immediately on demand and that PLI hereby made a demand for payment of such amounts. Additionally, an independent valuation of IMC (the "IMC Valuation") ordered by the independent trustee holding the IMC ownership shares under the PLI Financing Agreement's Security Agreement produced a value of approximately US$13 million for the IMC ownership shares seized by PLI.

Arbitration Claim made under the Canada-Peru Free Trade Agreement ("CPFTA")

The specified claims of default relate primarily to the Company's inability to make scheduled repayments against the PLI Financing Agreement as a result of the ongoing illegal road blockade carried out by the community of Paran at Invicta. Despite numerous requests for resolution assistance from local and federal government officials of the Republic of Peru, the requested assistance was not provided and the blockade continued, resulting in the Company's loss of its ownership of IMC and the Invicta Gold Project.

On December 12, 2019, the Company delivered to the Peruvian Minister of Economy and Finance a Notice of Intent to Submit a Claim to Arbitration in accordance with the 2009 Free Trade Agreement between Canada and Peru (the "CPFTA Arbitration"). In this respect, the Company has engaged Lalive (London, UK) LLP to represent its interests in the CPFTA Arbitration.

While the Company and PLI disputed each other's actions and claims, effective July 22, 2020, mutual releases (the "Release") were executed between the Company and its subsidiaries (together, the "Lupaka Parties") and PLI Huaura Holdings L.P. ("PLI"), Invicta Mining Corp S.A.C. ("IMC") and certain associated parties of PLI (the "PLI Parties").

As a result, all claims made or in the process of being made by the Lupaka Parties against the PLI Parties are deemed to be released and forever discharged from each and every one of the PLI Parties; and all claims made or in the process of being made by the PLI Parties against the Lupaka Parties are deemed to be released and forever discharged from each and every one of the Lupaka Parties.

Due to PLI and loss on re-measurement of PLI liability (continued)

A significant outcome of the Release to the Company is that the liability of ~$22 Million to PLI, reported herein has been fully discharged by the PLI Parties and will be duly eliminated in the Company's upcoming Q3-20 financial filings.

On August 4, 2020, the Company reported that it had entered into an Arbitration Funding Agreement with Bench Walk Advisors ("BWA") to support the Company's arbitration claim against the Republic of Peru under the 2009 Canada-Peru Free Trade Agreement ("FTA. The Agreement allows for up to USD$4.1 million to support the arbitration and related costs. All monies to be advanced by BWA are non-recourse and are only repayable upon completion of a successful claim where monies are recovered. As such, the financing is non-dilutive to current Lupaka shareholders. Precise terms of the Arbitration Funding Agreement (other than those set out herein) are confidential.

b) Deferred revenue

The gross proceeds received from the PLI Financing Agreement 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 had a grace period of 15 months after which the Company was to deliver to PLI a total of 22,680 ounces of gold over the subsequent 45 months. For the repayment ounces, the Company would receive an amount per ounce of gold equal to the market price at the time, less a fixed discount. After the ounces of gold had been delivered, the Company would have no further obligations under the PLI Financing Agreement. During the term of the PLI Financing Agreement, PLI would also share in the upside on any increase in certain metal prices above the base spot price established in the PLI Financing Agreement.

The Company had the right to buy out and terminate the PLI Financing Agreement at any time and the Company's obligations under this agreement were 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. These fees were netted pro-rata against all three Tranches within Deferred Revenue.

c) Due to PLI and loss on re-measurement of PLI liability

Management disagreed with PLI's estimate of approximately US$16 million (as of October 31, 2019) owed to PLI as a result of PLI's termination of the PLI Financing Agreement. However, in the absence of any discharge, payment or settlement of this disputed obligation prior to June 30, 2020, the Company recorded a Due to PLI liability of $22.2 million (US$16.3 million). During the six months ended June 30, 2020, the Company recorded interest of US$239,000.

d) Metals derivative liability

The metals derivative liability, a Level 2 financial instrument, was determined to be a distinct and separate obligation under the PLI Financing Agreement as it provided 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 PLI Financing Agreement, noting that this relates only to production of metals at Invicta during the tenure of the PLI Financing Agreement.

(presented in Canadian Dollars)

9 Equity

a) Common shares

Authorized: unlimited with no par value.

On June 10, 2020, the Company completed a non-brokered private placement with third-party individuals raising gross proceeds of $100,000 by issuing 5,000,000 common shares at a price of $0.02 per common share. All of the shares issued are subject to a 4- month hold period from the date of issuance.

On March 13, 2019, the Company completed a non-brokered private placement unit Offering with third-party individuals raising gross proceeds of $665,000 and issuing 11,083,333 units (the "March 2019 Unit") priced at $0.06 per unit. Each March 2019 Unit consists of one common share and one transferable common share purchase warrant (each, a "March 2019 Warrant") entitling the holder to purchase one additional common share at $0.10 per share for a period of thirty months from the date of the closing of the Offering.

In connection with the subscriptions received in the Offering, the Company paid finders' fees of $19,350 and issued 322,500 non-transferable common share purchase warrants (each, a "Finders' Warrant") entitling the holder to acquire one common share of the Company at a price of $0.10 per share for a period of 30 months from the date of the closing of the Offering.

The Company also completed Shares For Debt Transactions ("SFD Transactions") in March 2019. Under the SFD Transactions, the Company issued 14,566,175 Units to several creditors under the same terms and pricing as the Private Placement to settle $873,971 in bridge loans and short-term accounts payable in Canada. Each Unit converted at a deemed price of $0.06. Certain directors and officers of the Company participated in the SFD Transactions, totalling $156,250 converting to 2,604,166 Units. In addition to the finders' fees above, share issue costs totalled approximately $10,000 and related to both the Offering and the SFD Transaction.

On February 7, 2019, the Company issued 850,000 common shares to a creditor at a deemed price of $0.155 per share.

b) Share purchase warrants

The Company has 25,972,008 share purchase warrants outstanding at an exercise price of $0.10 with 1.2 years of contractual life remaining as at June 30, 2020.

Following is a continuity schedule for the Company's warrants, for the six months ended June 30, 2020 and 2019:

	2020		2019	
	Number of share purchase warrants	**Weighted average exercise price $**	**Number of share purchase warrants**	**Weighted average exercise price $**
Warrants outstanding - beginning of period	28,094,795	0.11	14,402,662	0.15
Placement Warrants issued	-	-	11,083,333	0.10
SFD Warrants issued	-	-	14,566,175	0.10
Finders Warrants issued	-	-	322,500	0.10
Warrants expired	(2,122,787)	0.26	(4,833,333)	0.20
Warrants outstanding - end of period	25,972,008	0.10	35,541,337	0.11

(presented in Canadian Dollars)

Equity (continued)

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

On May 24, 2020, 2020, the 2,000,000 May 2017 Warrants expired.

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:

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

On February 9, 2020, the 122,787 Tranche 3 Agents' Warrants expired.

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 five years.

Vesting terms are determined for each grant by the Company's Board of Directors. The options granted in the six months ended June 30, 2020 and 2019 vest in equal amounts beginning as early as on the date of grant and ending up to eighteen months from the date of grant.

Equity (continued)

A summary of changes to share options outstanding and exercisable in the six months ended June 30, 2020 and 2019 is as follows:

	2020		2019	
	Number of share options	Weighted average exercise price $	Number of share options	Weighted average exercise price $
Options outstanding - beginning of period	12,155,000	0.14	10,162,500	0.14
Granted	1,750,000	0.05	500,000	0.10
Forfeited	(1,350,000)	0.18	(1,127,500)	0.13
Options outstanding - end of period	12,555,000	0.10	9,535,000	0.14

The weighted average fair value of the share options granted in the six months ended June 30, 2020 was estimated to be $0.02 per option at the grant dates ($0.06 for the six months ended June 30, 2019) using the Black-Scholes option-pricing model and based on the following assumptions:

	2020	2019
Weighted average exercise price ($)	0.05	0.10
Dividend yield	-	-
Risk free interest rate (%)	0.3	1.8
Expected life (years)	3.4	3.4
Forfeiture rate (%)	9.4	10.2
Expected volatility (%)	177.2	124.0

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 $32,000 have been recorded for the six months ended June 30, 2020 (2019 - $125,000), and allocated as follows:

	Three months ended June 30		Six months ended June 30	
In thousands of dollars	2020	2019	2020	2019
Salaries and benefits	17	36	28	85
Shareholder and investor relations	1	3	4	7
Development costs (capitalized)				
Project Administration	-	13	-	30
Community	-	1	-	3
Total share-based compensation	18	53	32	125

(presented in Canadian Dollars)

Equity (continued)

The following table summarizes information about share options outstanding and exercisable at June 30, 2020:

		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)
2020	0.06	1,100,000	0.06	0.4	1,100,000	0.06	0.4
2021	0.16	1,405,000	0.16	1.4	1,405,000	0.16	1.4
2022	0.15	1,750,000	0.15	2.3	1,750,000	0.15	2.3
2023	0.12 - 0.23	2,350,000	0.16	3.2	2,350,000	0.16	3.2
2024	0.05 - 0.10	4,200,000	0.06	4.1	2,225,000	0.06	4.1
2025	0.05	1,750,000	0.05	5.0	437,500	0.05	5.0
	0.05 - 0.23	12,555,000	0.10	3.2	9,267,500	0.12	2.7

10 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 (June 30, 2020 - ($22,877,000); December 31, 2019 - ($21,536,000)).

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.

11 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 June 30, 2020 and 2019, the Company's undiscounted contractual obligations were as follows:

In thousands of dollars	June 30, 2020	December 31, 2019
Trade and other payables (within 1 year)	22,966	21,636

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.

Interest rate risk

The Company is exposed to financial risk related to the fluctuation of interest rates.

Foreign exchange risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has financial liabilities in US Dollars. A significant change in the currency exchange rates would have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations.

(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.

Financial risk factors (continued)

The fair values of cash, trade and other receivables and trade and other payables approximate carrying value because of their short-term nature. At June 30, 2020, the Company had no 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 June 30, 2020 and December 31, 2019, the Company had no financial instruments that would be categorized as Level 2 in the fair value hierarchy above, while the Due to PLI liability can be categorized as Level 3 in the fair value hierarchy above.

12 Financing expenses

	Three months ended June 30		**Six months ended June 30**	
In thousands of dollars	2020	2019	2020	2019
Financing expenses	-	169	-	328
Foreign exchange loss (gain)	(9)	(7)	11	(15)
Interest expense	-	-	-	8
Loan accretion	-	-	-	1
Total	(9)	162	11	322