

# **Lupaka Gold Corp.**

## **Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

(Presented in Canadian Dollars)



## *Independent auditor's report*

To the Shareholders of Lupaka Gold Corp.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lupaka Gold Corp. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Material uncertainty related to going concern*

We draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Craig Moffat.

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
April 17, 2019

# Lupaka Gold Corp.

## Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(presented in thousands of Canadian Dollars)

	December 31, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	233	1,656
Trade and other receivables	76	41
Inventory	71	–
Prepaid expenses and deposits	35	261
Marketable securities (Note 4)	–	3,797
	415	5,755
<b>Non-current assets</b>		
Value-added tax receivable (Note 5)	843	–
Equipment (Note 6)	272	95
Mineral property under development (Note 8)	22,149	13,240
<b>Total assets</b>	<b>23,679</b>	<b>19,090</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payables and accrued liabilities	2,404	1,321
Loans (Note 10)	539	600
Settlement liabilities	312	–
Current portion of metals derivative liability (Note 12)	3,413	259
Current portion of deferred revenue (Note 11)	3,056	–
Due to related parties (Note 9)	62	18
	9,786	2,198
<b>Long-term liabilities</b>		
Metals derivative liability (Note 12)	–	3,368
Deferred revenues (Note 11)	–	1,177
Reclamation and closure cost obligations (Note 13)	758	652
Settlement liability (Note 9)	–	275
Long-term portion of loans (Note 10)	–	211
<b>Total liabilities</b>	<b>10,544</b>	<b>7,881</b>
<b>Shareholders' Equity</b>		
Common shares (Note 14 (a))	59,360	58,774
Warrants (Note 14 (b))	813	1,286
Contributed surplus	5,845	4,802
Deficit	(54,519)	(54,834)
Accumulated other comprehensive income	1,636	1,181
<b>Total equity</b>	<b>13,135</b>	<b>11,209</b>
<b>Total liabilities and equity</b>	<b>23,679</b>	<b>19,090</b>

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

**Contingencies** (Note 12)

**Subsequent events** (Note 20)

Approved and authorized for issue by the Board of Directors on April 17, 2019

*signed "Will Ansley"*

Director

*signed "Mario Stifano"*

Director

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

# Lupaka Gold Corp.

## Consolidated Statements of Loss and Comprehensive Loss For the years ended December 31, 2018 and 2017

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

	2018	2017
	\$	\$
<b>Operating expenses</b>		
Exploration		
Camp, community relations and related costs, net of recoveries	(259)	900
Project administration	58	640
	(201)	1,540
General and administration		
Salaries and benefits	821	263
Corporate development	173	191
Professional and regulatory fees	155	199
Shareholder and investor relations	126	85
Office and general	97	110
Travel	39	22
	1,411	870
<b>Operating loss</b>	1,210	2,410
Loss on sale of exploration asset (Note 7)	–	11,037
Financing expenses (Note 19)	1,054	1,137
(Gain) / loss on metals derivative liability	(2,570)	218
Loss on sale of marketable securities (Note 4)	–	81
Gain on sale of equipment	(9)	–
<b>Net earnings (loss) for the year</b>	315	(14,883)
Other comprehensive income (loss)		
Change in fair value of securities	(567)	(275)
Currency translation adjustment on foreign operations	1,022	(659)
<b>Comprehensive income (loss) for the year</b>	770	(15,817)
<b>Weighted average number of shares outstanding</b>		
Basic	121,167,286	117,431,625
Diluted	127,206,361	
<b>Earnings (loss) per share, basic and diluted</b>		
Basic	\$0.00	(\$0.13)
Diluted	\$0.00	

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

# Lupaka Gold Corp.

## Consolidated Statements of Cash Flows For the years ended December 31, 2018 and 2017

(presented in Thousands of Canadian Dollars)

	2018	2017
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Net earnings (loss) for the year	315	(14,883)
Adjustment for items not affecting cash:		
Unrealized foreign exchange (Note 19)	(156)	419
Finance expense (loan accretion) (Note 19)	332	527
Share-based compensation expense (Note 13)	296	266
Loss on marketable securities (Note 4)	–	81
(Gain) / loss on metals derivative liability (Note 12)	(2,570)	218
Finance expense (Note 19)	781	79
Loss on sale of exploration asset (Note 7)	–	11,037
Write-down of equipment	–	72
Depreciation (Note 6)	–	37
	(1,002)	(2,147)
Changes in non-cash working capital		
Trade and other receivables	(35)	(23)
Prepaid expenses and deposits	226	(224)
Inventory	(71)	–
Accounts payables and accrued liabilities	(406)	24
Settlement liabilities	37	–
Due to/from related parties (Note 9)	(192)	(413)
<b>Net cash used in operating activities</b>	(1,443)	(2,783)
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(6,547)	(1,870)
Proceeds on sale of marketable securities	3,391	581
Purchase of equipment	(202)	(4)
Proceeds on sale of mineral property	–	750
<b>Net cash used in investing activities</b>	(3,358)	(543)
<b>Cash flows from (used in) financing activities</b>		
PLI Financing (Note 11)	3,143	4,579
Repayment of loans (Note 10)	(360)	(750)
Exercises of warrants	414	50
Exercises of options	32	46
Proceeds from loans, net (Note 10)	–	706
Proceeds from private placement, net (Note 14)	–	298
<b>Net cash from financing activities</b>	3,229	4,929
<b>Net increase (decrease) in cash</b>	(1,572)	1,603
<b>Cash- beginning of year</b>	1,656	112
<b>Effect of foreign exchange rate changes on cash</b>	149	(59)
<b>Cash - end of year</b>	233	1,656

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

# Lupaka Gold Corp.

## Consolidated Statements of Changes in Equity For the years ended December 31, 2018 and 2017

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

	2018		2017	
	Number	\$	Number	\$
<b>Common shares (Note 14 (a))</b>				
Balance – beginning of year	118,734,680	58,774	115,474,680	58,419
Share purchase warrants exercised	2,841,430	531	500,000	65
Stock options exercised	433,750	55	460,000	77
Issued pursuant to private placements	–	–	2,000,000	168
Shares issued for debt	–	–	300,000	45
Balance – end of year	122,009,860	59,360	118,734,680	58,774
<b>Share purchase warrants (Note 14 (b))</b>				
Balance – beginning of year		1,286		1,366
Issued pursuant to a private placement		–		129
Issued pursuant to loans (Note 10)		245		330
Share purchase warrants exercised		(117)		(15)
Share purchase warrants expired		(436)		(540)
Share purchase warrants canceled		(184)		–
Agent’s warrants issued pursuant to PLI Financing (Note 11)		19		16
Balance – end of year		813		1,286
<b>Contributed surplus</b>				
Balance – beginning of year		4,802		4,012
Share-based compensation		445		281
Share purchase warrants canceled		184		–
Share purchase warrants expired		436		540
Stock options exercised		(22)		(31)
Balance – end of year		5,845		4,802
<b>Deficit</b>				
Balance – beginning of year		(54,834)		(39,951)
Net earnings (loss) for the year		315		(14,883)
Balance – end of year		(54,519)		(54,834)
<b>Accumulated other comprehensive income</b>				
Balance – beginning of year		1,181		2,115
Change in fair value of securities		(567)		(275)
Currency translation adjustment on foreign operations		1,022		(659)
Balance – end of year		1,636		1,181
Total shareholders’ equity		13,135		11,209

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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 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 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 December 31, 2018, the Company has a working capital deficit of \$9,371,000 and negative cash flow from operating activities of \$1,443,000. In addition, as disclosed in Note 11, the Company is in breach of certain covenants that resulted in a technical default. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

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. The ability to generate positive cash flow is contingent on regaining access to the Invicta mine site by successfully resolving the Paran demonstration. 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.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

### 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 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 consolidated financial 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 year ended December 31, 2018.

These consolidated financial statements were approved by the Company's Board of Directors on April 17, 2019.

#### 2.3 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.

#### 2.4 Basis of consolidation

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

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

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

#### 2.5 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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

### *Significant accounting judgments*

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

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

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

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.

Valuation of the derivative related to 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 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.

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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount.

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

No loss provision regarding possible additional tax assessments – the decision that no loss provision be made regarding the challenge to the deductibility of certain property write-offs and foreign exchange losses by SUNAT, the Peruvian tax authority, is based on the Company's opinion that the deductions are legitimate and can be successfully defended in the appeals process available under Peruvian law. In the event that the Company is not successful in its appeal of the tax proceedings or SUNAT chooses to initiate collection action against IMC, management has been advised by Peruvian legal counsel that the maximum value of the related contingent tax assessment would be capped at the market value of the concessions sold by El Misti Gold, the Company's former subsidiary at the time, to IMC, which is estimated by an independent valuator to be ~US\$110,000.

### 2.5 Related parties

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

## 3 Significant accounting policies

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries disclosed in Note 2. All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. Control exists where the parent entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

### 3.1 Foreign currency translation

#### *(a) Functional and presentation currency*

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

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 commercial 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

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

### *(b) Transactions and balances*

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

### *(c) Subsidiaries*

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position.
- (ii) Income and expenses for each statement of loss are translated at average exchange rates for the period.
- (iii) Equity items are translated at historical rates.
- (iv) All resulting exchange differences are recognized in other comprehensive loss until the disposal of the subsidiary.

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

## **3.2 Financial assets and other financial liabilities**

The Company has adopted IFRS 9, Financial Instruments (“IFRS 9”) effective January 1, 2018 on a retrospective basis in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company’s financial assets on the transition date. As detailed below, the Company has changed its accounting policy for financial instruments retrospectively, except where described below. The main areas of change and corresponding transitional adjustments applied on January 1, 2018 are as follows:

### **a) Financial Assets at Amortized Cost**

Cash, trade 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. Trade receivables are recorded net of lifetime expected credit losses. Previously under IAS 39, trade receivables were classified as loans and receivables measured at amortized cost. The change in classification did not impact the measurement of cash, trade and other receivables.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

### 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. In the prior financial year, the Company had designated all such investments as available for sale where management intended to hold them for the medium to long-term.

### 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.

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.

### d) Metals derivative liabilities at FVTPL

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

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

### *De-Recognition of Financial Assets and Liabilities*

A financial asset is derecognized 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.

### *Expected credit loss impairment model*

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company’s financial statements and did not result in a transitional adjustment.

# Lupaka Gold Corp.

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### **3.3 Value-added tax receivable**

The actual timing of receipt is uncertain as value-added tax receivable (“VAT”) is refundable only upon commercial operations; therefore, VAT receivable has been classified as a non-current asset.

### **3.4 Inventory**

Inventory is comprised of supplies inventory at the mine site and is recorded at cost.

### **3.5 Equipment**

Equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of equipment are as follows:

Office equipment and furniture: 2 to 10 years

Vehicles and field equipment: 3 to 10 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within the statement of loss and comprehensive loss.

### **3.6 Mineral property under development**

Mineral property under development is stated at cost less accumulated amortization and accumulated impairment charges, if any. The costs associated with mineral property under development include direct costs and acquired interests in development, exploration and production-stage properties. Mineral property under development also includes the capitalized costs of associated mineral properties after acquisition of the properties, the costs incurred during the development of mineral properties (once feasibility has been established) and the deferred stripping costs after the commencement of production. Capitalization of pre-commercial production ceases when the mining property is capable of commencement of mining operations in the manner intended by management.

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

### **3.7 Commercial production**

The company continuously assesses its mining operation to determine the point of commencement of production. This assessment relies on a variety of relevant criteria to determine when the mine is substantially complete and ready for its intended use and therefore should be moved into the production stage. Some of the criteria considered include, but are not limited to; the ability to produce minerals in saleable form and the ability to sustain ongoing production of minerals at a sufficient volume. When a project commences production, the capitalization of certain mine construction costs ceases, and costs are either capitalized to inventory or expensed, except for capitalized costs related to property, plant and equipment additions or improvements, and underground mine development activities.

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When a property is placed into production, those capitalized costs are included in the calculation of the amortization of mine development costs. Property acquisition and mine development costs are amortized by the units-of-production method based on estimated proven and probable recoverable mineral reserves and indicated mineral resources that are reasonably expected to be mined. Estimates of residual values, useful lives and methods of amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

### **3.8 Revenue from contracts with customers**

The Company adopted IFRS 15, revenue from contracts with customers, on January 1, 2017. IFRS 15 introduced a single principles-based, five-step framework for the recognition of revenue when control of goods is transferred to, or services are performed, for the customer. The five steps include identification of the contract/contracts with customers, identification of the performance obligations under the contract, determination of the transaction price, allocation of the transaction price and recognition of revenue when the performance obligation is satisfied. The standard also requires enhanced revenue disclosures to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

### **3.9 Exploration and evaluation expenditures**

Exploration and evaluation expenditures comprise costs which are directly attributable to: researching and analyzing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. All exploration and evaluation expenditures are expensed as incurred, net of proceeds from the sale of metal extracted during the evaluation and exploration phase.

Once management has determined that the property is economically viable and technically feasible, the decision to proceed with development has been approved, and the necessary permits are in place for its development, development costs will be capitalized to mineral property under development.

### **3.10 Impairment of non-current assets**

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

Where the asset does not generate cash flows that are independent with other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. The Company has determined that it has two CGU's. The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves and resources, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in the consolidated statement of loss and comprehensive loss.

Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where

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an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or CGU in prior years. A reversal of impairment is recognized as a gain in the consolidated statement of loss and comprehensive loss.

A significant or prolonged decline in the fair value of an equity security below its cost is evidence that the assets are impaired. The Company considers a prolonged period to be six months from the time that the carrying value is below cost, while taking into consideration the investment volatility in its determination of a significant decline.

### **3.11 Share capital**

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

### **3.12 Share-based compensation**

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

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

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

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

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

### **3.13 Share purchase warrants**

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

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### 3.14 Earnings per share

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

For the year ended December 31, 2017 – 36,472,397 shares to be issued on the exercise of share options and share purchase warrants have been excluded from the calculation of diluted loss per share because the effect is anti-dilutive.

### 3.15 Reclamation provision

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

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

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

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

### 3.16 Provisions and contingent liabilities

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

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

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are not recognized in the

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consolidated financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

### **3.17 Income taxes**

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

#### (a) Current tax

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

#### (b) Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

### **3.18 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's Chief Executive Officer. The Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person who makes strategic decisions as the chief operating decision maker.

The Company's operations are limited to a single reportable segment, being exploration and development of its mineral property under development. The Company's geographical segments are determined by the location of the Company's assets and liabilities.

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### 3.19 Valuation of equity units issued in private placements

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

### 3.20 New standards and interpretations

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning January 1, 2018, as set out below. Pronouncements that are not applicable to the Company have been excluded from this note.

IFRS 9 - Financial Instruments, Classification and Measurement - Addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”).

The Company assessed the classification and measurement of its financial assets and liabilities under IFRS 9 and has summarized the original categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	<u>Original</u> <u>(IAS 39)</u>	<u>New</u> <u>(IFRS 9)</u>
Financial assets		
Cash	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Marketable securities	Available-for-sale	FVOCI
Financial liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost
Loans	Amortized cost	Amortized cost
Settlement liabilities	Amortized cost	Amortized cost
Metals derivative liability and deferred revenue	FVTPL	FVTPL

The Company made an irrevocable classification choice to record fair value changes on its current portfolio of investments in marketable equity securities through OCI. This election did not have an effect on the Company’s financial statements.

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

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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 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. The transaction with GoldMining resulted in the Company recognizing a loss of \$11,037,000, calculated as follows:

<i>In thousands of dollars</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"). During 2017 the Company sold 645,400 GOLD Shares, realizing a loss of \$81,000.

During the year ended December 31, 2018, the Company sold its remaining 2,854,600 GOLD shares, realizing a total loss of \$842,000 for the year on its GOLD shareholdings, which was included in other comprehensive income.

#### 5 Value-Added Tax Receivable

Non-current value-added tax receivable ("VAT") arises from the government of Peru and relates to payments for the Company's development activities. The actual timing of receipt is uncertain as VAT is refundable only upon commercial operations; therefore, VAT receivable has been classified as a non-current asset.

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### 6 Equipment

<i>In thousands of dollars</i>	Vehicles and field equipment \$	Office equip and furniture \$	Total \$
<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	195	202
Disposals	–	(22)	(22)
Foreign exchange	24	24	48
Balance as at December 31, 2018	306	283	589
<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	29	13	42
Disposals	–	(22)	(22)
Foreign exchange	17	14	31
Balance as at December 31, 2018	229	88	317
<b>Carrying amounts</b>			
Balance as at December 31, 2017	92	3	95
Balance as at December 31, 2018	77	195	272

During the year ended December 31, 2018, \$42,000 (2017 – \$Nil) of depreciation was capitalized to the Invicta mineral property under development, \$Nil (2017 – \$32,000) was included in project administration expense and \$Nil (2017 – \$5,000) was included in office and general expense. During the year ended December 31, 2017, the Company recorded a net write-down of \$72,000 for obsolete equipment.

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### 7 Exploration and evaluation assets

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

#### *Crucero Gold Project ("Crucero")*

On November 20, 2017, the Company closed (the "Closing") a definitive sales and purchase agreement (the "SPA") to sell all of its interests in Crucero to GoldMining Inc. ("GoldMining").

Pursuant to the SPA, GoldMining acquired all of the shares of a wholly-owned, numbered subsidiary of the Company, created specifically to hold only the Company's Crucero assets, for \$750,000 in cash and 3,500,000 common shares of GoldMining (TSXV: "GOLD"), for total consideration having a fair market value of \$5,720,000 as of the Closing. The GOLD shares issued under the transaction were subject to certain volume-sale restrictions. An advisory fee of \$184,000 was incurred by the Company in connection with Crucero sale transaction and is included in General and Administration (corporate development) expenses.

The aggregate consideration received from GoldMining of \$5,720,000 was credited to exploration and evaluation assets as a disposition of a mineral property.

The SPA transaction with GoldMining resulted in the Company recognizing a loss of \$11,037,000 in 2017 on the disposition of all of its interests in Crucero, calculated as follows:

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

#### *Josnitoro Gold Project ("Josnitoro")*

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

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

The carrying value for Josnitoro, for which no consideration has been paid, as at December 31, 2017 and 2018 was \$Nil.

# Lupaka Gold Corp.

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### 8 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>	Acquisition Costs \$	Concession Fees \$	Infra- structure \$	Community \$	Project Admin \$	Total \$
<b>Cost</b>						
Balance, December 31, 2017	11,714	59	816	633	18	13,240
Additions	–	140	5,157	837	1,192	7,326
Foreign exchange	1,088	12	342	97	44	1,583
Balance, December 31, 2018	12,802	211	6,315	1,567	1,254	22,149

The Company conducts impairment assessments of non-financial assets including Mineral Properties Under Development at the end of each reporting period and the Company assesses whether there are any indicators that the value may be impaired. If an indicator of impairment exists, the recoverable amount of the asset is calculated in order to determine if any impairment loss is required. Impairment tests are conducted when events or changes in circumstances suggest that the carrying amount of these assets may not be recoverable. During the period ended December 31, 2018 the Company determined that such indicators did exist on the Company's Mineral Properties Under Development and an impairment test was undertaken but determined that an impairment was not required.

An impairment test is subjective and requires management to make estimates and assumptions for a number of factors including regaining access and restarting the Invicta Mine, estimates of production levels, mineral resources and mineral reserves, operating costs and capital expenditures reflected in the Company's life-of-mine plan, as well as economic factors beyond management's control, such as metal prices and discount rates. For the impairment test conducted at December 31, 2018 the Company used the following assumptions: 1) Flat life-of-mine metal prices and exchange rates as at December 31, 2018. 2) Risk adjusted real discount rate of 25%. 3) Deferred commencement of production to January 1, 2020. Should management's estimates and assumptions regarding these factors be incorrect or vary over time, the Company may be required to modify the impairment

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charges, if any, which would impact the Company's earnings. It is difficult to predict if and when impairment charges may be incurred.

### 9 Related party transactions

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

#### (a) Related party expenditures

During the year ended December 31, 2018, the Company:

- paid \$10,000 for consulting and advisory services to Havilah Holdings Inc. ("Havilah"), a company wholly-owned by Geoff Courtnall;
- 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 \$59,000 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 December 31, 2018, these individuals' bridge loan holdings comprise all \$90,000 of BL2 and all \$450,000 of BL3 and \$32,400 in interest related to BL2 and BL3 was accrued to these directors and officers for the six months ended December 31, 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:

<i>In thousands of dollars</i>	<b>2018</b>	<b>2017</b>
	\$	\$
Salaries and benefits	615	220
Share-based compensation	378	204
<b>Total key management compensation</b>	<b>993</b>	<b>424</b>

#### (c) Due to/from related parties

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

As at December 31, 2018, \$62,000 was payable to an officer, director and a company controlled by a related party for services rendered and \$275,000 was payable in April 2019 to a former CEO of the Company pursuant to a March 2018 settlement agreement between the parties and included in Settlement Liabilities. This March 2018 settlement agreement was renegotiated subsequent to December 31, 2018. See Note 20 – Subsequent Events for more details.

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### 10 Loans

#### *Bridge Loan 1 (“BL1”)*

On June 30, 2016, the Company completed a bridge loan financing for gross proceeds of \$750,000 with a group of third-party individuals and Insiders of the Company. The Company paid \$8,100 cash in finders’ fees in connection with third-party investors and \$16,300 in other costs. Pursuant to the closing of BL1, the Company also issued share purchase warrants (“BL1 Warrants”) as additional consideration for the loan – see Note 14.

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

#### *Bridge Loan 2 (“BL2”)*

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

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

The BL2 principal and accrued and unpaid interest is payable in full on or before the earlier to occur of: (i) three months after the Company receives an advance of funds of at least \$8.0 million in new financing, if the noteholder requests repayment of BL2; and (ii) the date that is two years after the Closing Date (being January 12, 2019).

Pursuant to the closing of BL2, the Company issued share purchase warrants (“BL2 Warrants”) – see Note 14.

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.

In March 2019 the Company reached an agreement with the BL2 lenders to convert all of the principal and most of the interest into Units of the Company. Each Unit was priced at \$0.06 and consisted of one common share of the Company and one transferable common share purchase warrant, with each warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 for a period of 30 months from the date of closing.

The recorded value of the remaining BL2 balance as at December 31, 2018 is almost fully 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>\$</b>	<b>Equity</b> <b>\$</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	88	–
Loans repaid	(210)	–
Balance, December 31, 2018	89	146

# Lupaka Gold Corp.

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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 14.

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 14.

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.

In March 2019 the Company reached an agreement with the BL3 lenders to convert all of the principal and most of the interest into Units of the Company. Each Unit was priced at \$0.06 and consisted of one common share of the Company and one transferable common share purchase warrant, with each warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 for a period of 30 months from the date of closing.

The recorded value of the BL3 balance as at December 31, 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>\$</b>	<b>Equity</b> <b>\$</b>
Balance, January 1, 2017	–	–
BL3 proceeds	600	–
Fair value of BL3a Warrants issued (see Note 14)	(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 14)	(245)	245
Finance expense	245	–
Balance, December 31, 2018	450	429

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

### 11 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 ounces of gold have been delivered, 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 12.

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 a result of the illegal blockade of the Invicta Mine by the community of Paran, the Company has been unable to generate operating cash flow as scheduled. Consequently, this has caused the Company to delay the delivery of gold to PLI against the PLI Financing Agreement, and the agreement was technically in default as of January 2019. The Company is also in breach of a minimum liquidity covenant and the requirement to maintain a fully executed mineral offtake agreement at all times. The Company is continuing to work with PLI on implementing restructured payment plans and securing necessary waivers. Due to the PLI Financing Agreement being in technical default, all deferred revenue has been reflected as a current liability on the balance sheet.

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.

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 14 (b)).

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

As at December 31, 2018, deferred revenue is comprised as follows:

<i>In thousands of dollars</i>	2018		2017	
	CAD \$	USD \$	CAD \$	USD \$
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	509	392	79	61
Foreign exchange	196	–	(17)	–
Closing balance	3,056	2,240	1,177	938

For the twelve months ended December 31, 2018, the financing fee accretion was \$509,000 (2017 - \$79,000) and the foreign exchange was \$196,000 (2017 – \$(17,000)).

## 12 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 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 11).

As a result of the illegal blockade of the Invicta Mine by the community of Paran, the Company has been unable to generate operating cash flow as scheduled. Consequently, this has caused the Company to delay the delivery of gold to PLI against the PLI Financing Agreement, and the agreement was technically in default as of January 2019. The Company is also in breach of a minimum liquidity covenant and the requirement to maintain a fully executed mineral offtake agreement at all times. The Company is continuing to work with PLI on implementing restructured payment plans and securing necessary waivers. Due to the PLI Financing Agreement being in technical default, all of the metals derivative liability has been reflected as a current liability on the balance sheet.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

(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%			
Expected life (years)	5.25			
Expected volatility (%)	24.9%	18.8%	21.7%	19.0%

The following assumptions were applied to the revaluation of Tranche 1, Tranche 2 and Tranche 3 as at December 31, 2018:

	<b>Silver (oz)</b>	<b>Copper (tonne)</b>	<b>Lead (tonne)</b>	<b>Zinc (tonne)</b>
Quantity	178,682	1,194	964	880
Metal price (\$ per unit)	US\$15.54	US\$5,262	US\$2,033	US\$2,443
Exercise price (\$ per unit)	US\$15.62	US\$5,497	US\$2,051	US\$2,453
Risk free interest rate (%)	1.93%			
Expected life (years)	4.25			
Expected volatility (%)	20.3%	19.7%	22.5%	19.5%

As at December 31, 2018, the fair value of the Metals Derivative Liability is comprised as follows:

	<b>2018</b>		<b>2017</b>	
	<b>CAD</b>	<b>USD</b>	<b>CAD</b>	<b>USD</b>
<i>In thousands of dollars</i>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening balance	3,627	2,891	–	–
Additions: Tranche derivative liability	2,050	1,589	3,416	2,723
Upside payments	(10)	(7)	–	–
Revaluation	(2,570)	(1,971)	210	168
Foreign exchange	316	–	1	–
Closing balance	3,413	2,502	3,627	2,891

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

### Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

For the twelve months ended December 31, 2018, the revaluation reduced the liability by \$2,570,000 (2017 – increased by \$210,000) and the foreign exchange impact was \$316,000, respectively (2017 – \$1,000).

### 13 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 \$758,000. These future cash outflows have been discounted at the risk-free interest rate considered applicable in Peru, where the Company's properties are located.

### 14 Equity

#### a) Common shares

Authorized: unlimited with no par value.

During the year ended December 31, 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.

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

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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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(presented in Canadian Dollars)

### b) Share purchase warrants

The Company has the following share purchase warrants outstanding as at December 31, 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)
2019	0.10 – 0.20	12,279,875	0.14	0.2
2020	0.23 – 0.26	2,122,787	0.23	1.4
	0.10 – 0.26	14,402,662	0.15	0.4

Following is a continuity schedule for the Company's warrants, for the year ended December 31, 2018:

	2018		2017	
	Number of share purchase warrants	Weighted average exercise price \$	Number of share purchase warrants	Weighted average exercise price \$
Warrants outstanding – beginning of year	27,047,397	0.15	28,173,355	0.19
Placement Warrants issued	-	-	2,000,000	0.23
Bridge Loan 2 Warrants issued	-	-	1,500,000	0.20
Bridge Loan 3b Warrants issued	3,333,333	0.18		
Bridge Loan 3a Warrants issued (canceled)	(4,000,000)	0.15	4,000,000	0.15
Agent's Warrants issued	122,787	0.26	246,542	0.19
Warrants exercised	(2,841,430)	0.15	(500,000)	0.10
Warrants expired	(9,259,425)	0.16	(8,372,500)	0.30
Warrants outstanding – end of year	14,402,662	0.15	27,047,397	0.15

A total of 7,200,000 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.

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

### *BL1 Warrants*

Pursuant to the closing of BL1 in June 2016, the Company issued to the lenders an aggregate of 3,750,000 non-transferrable warrants (the “BL1 Warrants”). Each BL1 Warrant entitled the holder to purchase one common share of the Company at a price of \$0.20 per share.

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

---

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

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 expired January 12, 2019, entitles the holder to purchase one common share of the Company at a price of \$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 December 31, 2018, there were 1,500,000 BL2 warrants outstanding.

### *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 December 31, 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

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

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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 December 31, 2018, there were 3,333,333 BL3b Warrants outstanding.

### *Agents' Warrants*

In conjunction with the receipt of Tranche 1 in August 2017 (see Note 11), 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 December 31, 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.

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(presented in Canadian Dollars)

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 December 31, 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:

---

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

As at December 31, 2018, there were 122,787 Tranche 3 Agents' Warrants outstanding.

### c) Share options

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

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

Vesting terms are determined for each grant by the Company's Board of Directors. The options granted in the year ended December 31, 2018 vest in equal amounts beginning as early as on the date of grant and ending up to eighteen months from the date of grant.

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

	2018		2017	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Options outstanding – beginning of period	9,425,000	0.15	8,672,500	0.18
Granted	3,525,000	0.17	2,410,000	0.15
Exercised	(433,750)	0.07	(460,000)	0.10
Forfeited	(948,750)	0.14	(262,500)	0.21
Expired	(1,405,000)	0.27	(935,000)	0.45
Options outstanding – end of period	10,162,500	0.14	9,425,000	0.15
Options exercisable – end of period	7,502,500	0.14	7,058,750	0.14

The weighted average fair value of the share options granted in the year was estimated to be \$0.13 (2017 – \$0.11) per option at the grant dates using the Black-Scholes option-pricing model and based on the following assumptions:

	2018	2017
Weighted average exercise price (\$)	0.17	0.11
Dividend yield	–	–
Risk free interest rate (%)	2.1	1.59
Expected life (years)	3.4	3.5
Pre-vest forfeiture rate (%)	10.8	5.0
Expected volatility (%)	126.0	128.6

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

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 \$445,000 have been recorded for the year ended December 31, 2018 (December 31, 2017 – \$281,000), and allocated as follows:

<i>In thousands of dollars</i>	2018	2017
	\$	\$
Salaries and benefits	274	208
Shareholder and investor relations	22	29
Project administration	–	21
Camp and related	–	8
<u>Development costs (capitalized)</u>		
Project Administration	128	8
Community	21	7
Total share-based compensation	445	281

# Lupaka Gold Corp.

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(presented in Canadian Dollars)

The following table summarizes information about share options outstanding and exercisable at December 31, 2018:

Year of Expiry	Range of exercise prices \$	Outstanding			Exercisable		
		Number of options outstanding	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)
2019	0.13	880,000	0.13	0.8	880,000	0.13	0.8
2020	0.06	1,640,000	0.06	1.9	1,640,000	0.06	1.9
2021	0.12 – 0.18	2,112,500	0.16	2.9	2,031,250	0.16	2.9
2022	0.15	2,242,500	0.15	3.8	1,701,250	0.15	3.8
2023	0.12 – 0.24	3,287,500	0.17	4.6	1,250,000	0.19	4.5
	0.06 – 0.24	10,162,500	0.14	3.3	7,502,500	0.14	2.9

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### 15 Income tax expense

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2018 and 2017 are as follows:

<i>In thousands of dollars</i>	<b>2018</b>	<b>2017</b>
	\$	\$
Deferred income tax assets:		
Non-capital loss carry-forwards, net	2,206	1,824
Property and equipment	7,079	6,368
Net capital loss carry-forwards	412	397
Share issuance costs	119	92
Reclamation obligation	240	208
Other	43	41
Deferred income tax assets, net	10,099	8,930
Unrecognized tax assets	(10,099)	(8,930)
	–	–

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

<i>In thousands of dollars, except statutory rate</i>	<b>2018</b>	<b>2017</b>
	\$	\$
Earnings (loss) before income tax expense (recovery)	315	(14,883)
Average statutory rate	27.00%	26.00%
Expected income tax recovery at statutory rates	85	(3,870)
Non-deductible expenses	(354)	3,435
Effect of different tax rates in foreign jurisdictions	53	(452)
Difference in prior year tax returns	(632)	(489)
Expiration of tax losses	93	3,834
Difference in future and current tax rates	(75)	–
Impact of difference in functional and tax currencies	(475)	774
Amounts charged to equity	137	14
Unrecognized tax assets	1,168	(3,246)
Income tax expense	–	–

- b) Losses carried forward

The Company has non-capital losses in Canada and Peru, for which deductions against future taxable income are uncertain, of approximately \$13.7 million (2017 - \$12.2 million) and \$3.2 million (2017 - \$1.3 million), respectively. The Canadian losses, if not utilized, will expire over 2029 through 2038, while the Peruvian losses, if not utilized, will expire over 2019 through 2022. Deferred income tax benefits which may arise as a result of the non-capital losses in the respective Peruvian entities have not been recognized as there is no reasonable certainty that they are likely to be realized in future periods.

# Lupaka Gold Corp.

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### 16 Segmented information

The Company has two reportable segments. Peru is the Company's principal operating business and includes its mineral property under development. Canada includes the Canadian corporate office and the Company's Management. The Company's reportable segments are based on the reports reviewed by Management that are used to make strategic decisions. Earnings for the year and total assets by segments are as follows:

	Year ended December 31	
	2018	2017
<i>In thousands of dollars</i>	\$	\$
Earnings (loss)		
Canada	271	(2,225)
Peru	44	(12,658)
	315	(14,883)

  

	As at December 31	
	2018	2017
<i>In thousands of dollars</i>	\$	\$
Total assets		
Canada	105	632
Peru	23,574	18,458
	23,679	19,090

### 17 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 (2018 – \$13,135,000; 2017 – \$11,209,000).

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.

At December 31, 2018, the Company is seeking opportunities to obtain further funding to pay liabilities as they come due and to finance operations at Invicta (see Notes 1 and 19).

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## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

(presented in Canadian Dollars)

### 18 Financial risk factors

#### (a) Financial risk exposure and risk management

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

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

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (Note 1). The Company manages its liquidity risk through the management of its capital structure and assets. At December 31, 2018 and 2017, the Company's undiscounted contractual obligations and their maturity dates were as follows:

	December 31, 2018 \$	December 31, 2017 \$
<i>In thousands of dollars</i>		
Trade and other payables (within 1 year)	2,778	2,175
Long-term liability (1 year)	–	275
Bridge Loans (1 year)	540	900
Deferred revenue and derivative liability (within 5 years)	9,549	4,579
Total	12,867	7,929

#### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign exchange rates, prices, interest rates, and commodity prices.

#### Foreign exchange risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has subsidiaries that operate in Peru and as such, a portion of its expenses are incurred in Peruvian Nuevo Soles, the Company's functional currency in Peru, and US Dollars. A significant change in the currency exchange rates could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations.

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

	December 31, 2018		December 31, 2017	
	US\$	PEN	US\$	PEN
Cash	135,000	104,000	1,287,000	74,000
Current assets	129,000	2,411,000	–	33,000
Current liabilities	(8,149,000)	(1,547,000)	(4,084,000)	(685,000)
Long-term liabilities	–	–	(3,394,000)	–

# Lupaka Gold Corp.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

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(presented in Canadian Dollars)

Based on the above net exposure as at December 31, 2018, and assuming that all other variables remain constant, a 10% appreciation (depreciation) of the Canadian Dollar against the US Dollar and/or Peruvian Nuevo Soles would result in an increase or decrease of approximately +/- \$1,037,000 (2017 – \$373,000) in the Company's net loss for the year.

### Operational Risk

Estimates of the recoverable amounts for non-financial assets are subjective and can vary over time. The Company estimates the recoverable amounts of non-financial assets using assumptions and if the carrying value of an asset at that time is determined to be greater than its actual recoverable amount, an impairment will be recognized, along with an increase in the Company's loss for the period. The Company conducts impairment assessments of non-financial assets at the end of each reporting period and the Company assesses whether there are any indicators that non-financial assets (such as property, plant and equipment) may be impaired. If an indicator of impairment exists, the recoverable amount of the asset is calculated in order to determine if any impairment loss is required. Non-financial assets are tested for impairment when events or changes in circumstances suggest that the carrying amount of these assets may not be recoverable. During the period ended December 31, 2018 the Company determined that such indicators did exist on the Company's Mineral Properties Under Development and an impairment test was undertaken but determined that an impairment was not required. An impairment test is subjective and requires management to make estimates and assumptions for a number of factors including regaining access and restarting the Invicta Mine, estimates of production levels, mineral resources and mineral reserves, operating costs and capital expenditures reflected in the Company's life-of-mine plan, as well as economic factors beyond management's control, such as metal prices and discount rates. Should management's estimates and assumptions regarding these factors be incorrect or vary over time, the Company may be required to modify the impairment charges, if any, which would impact the Company's earnings. It is difficult to predict if and when impairment charges may be incurred.

### (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.

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## Notes to the Consolidated Financial Statements

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The fair values of cash, trade and other receivables and trade and other payables approximate carrying value because of their short-term nature. At December 31, 2018, 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 December 31, 2018 and 2017, only the deferred revenue and other metals derivative liability arising from the PLI Financing is measured and recognized in the consolidated statement of financial position at fair value that would be categorized as Level 2 in the fair value hierarchy above.

### 19 Financing expenses

<i>In thousands of dollars</i>	2018 \$	2017 \$
Loan accretion	332	527
Financing expenses	781	461
Interest expense	97	155
Foreign exchange gain (loss)	(156)	(6)
Total	1,054	1,137

### 20 Subsequent Events

On February 11 and 13, 2019, Lupaka entered into agreements with two creditors whereby approximately \$450,000 of current payables were restructured into long-term notes, conditionally payable based on achieving future production thresholds at the Invicta Gold Project.

On March 13, 2019, Lupaka closed the first tranche of a non-brokered private placement (the "Private Placement") raising \$665,000 through the sale of 11,083,333 Units of the Company. Each Unit was priced at \$0.06 and consisted of one common share of the Company and one transferable common share purchase warrant, with each warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 for a period of 30 months from the date of closing.

On March 13, 2019, Lupaka converted approximately \$874,000 of amounts payable for BL2, BL3 and short-term accounts payable into 14,566,175 Units with the same terms as the Private Placement.