TREK MINING INC.

Condensed Consolidated Interim Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Unaudited – prepared by Management

For the three and six months ended June 30, 2017 and 2016

TREK MINING INC.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited, expressed in thousands of United States dollars)

	Note		June 30, 2017		December 31, 2016
Assets					
Current assets:					
Cash and cash equivalents		$	68,697	$	40,631
Accounts receivable, prepaid expenses and deposits	4		6,450		3,394
Available-for-sale investments			5,545		797
Inventory	5		2,522		1,193
			83,214		46,015
Goodwill			22,581		22,581
Exploration and evaluation assets			15,362		15,362
Mineral property, plant and equipment			148,569		5,848
Other assets	6		15,106		121
			201,618		43,912
		$	284,832	$	89,927
Liabilities and Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	3,464	$	843
Current portion of unearned revenue	9		600		600
Current portion of convertible debenture	10		13,139		-
			17,203		1,443
Convertible debenture	10		14,636		-
Unearned revenue	9		3,411		3,490
Reclamation obligation			4,579		326
Derivative liability	11		26,962		17,275
Deferred tax liability			5,839		-
Other long-term liabilities	18		1,469		-
			56,896		21,091
Total liabilities			74,099		22,534
Equity:					
Share capital	12		208,389		81,560
Reserves			8,654		6,234
Deficit			(7,226)		(21,557)
Equity attributable to Trek Mining Inc. shareholders			209,817		66,237
Non-controlling interest	7		916		1,156
Total equity			210,733		67,393
		$	284,832	$	89,927

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

TREK MINING INC.

Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited, expressed in thousands of United States dollars, except per share amounts)

		Three months ended June 30,		Six months ended June 30,	
	Note	2017	2016	2017	2016
Revenue		$ 3,207	$ -	$ 5,779	$ -
Cost of sales	13	(3,772)	-	(6,747)	-
		(565)	-	(968)	-
Expenses:					
Mine care and maintenance		(3,117)	-	(3,117)	-
Exploration		(2,523)	(146)	(2,954)	(577)
Corporate administration		(2,272)	(134)	(3,294)	(281)
Loss from operations		(8,477)	(280)	(10,333)	(858)
Other income (expense):					
Finance expense		(1,087)	(1)	(1,946)	(44)
Finance income		196	-	308	-
Other income (expense)	15	20,847	(570)	26,062	(897)
Net income (loss) for the period		11,479	(851)	14,091	(1,799)
Change in fair value of available-for-sale investments, net of tax		(22)	(8)	680	383
Realized gain on available-for-sale investments reclassified to net income (loss)		-	-	(329)	-
		(22)	(8)	351	383
Comprehensive income (loss)		$ 11,457	$ (859)	$ 14,442	$ (1,416)
Net income (loss) attributable to:					
Trek Mining shareholders		$ 11,622	$ (851)	$ 14,331	$ (1,799)
Non-controlling interest	7	(143)	-	(240)	-
		11,479	(851)	14,091	(1,799)
Comprehensive income (loss) attributable to:					
Trek Mining shareholders		11,600	(859)	14,682	(1,416)
Non-controlling interest	7	(143)	-	(240)	-
		$ 11,457	$ (859)	$ 14,442	$ (1,416)
Income (loss) per share attributable to Trek Mining shareholders	14				
Basic		$ 0.07	$ (0.05)	$ 0.12	$ (0.13)
Diluted		0.03	(0.05)	0.05	(0.13)

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

TREK MINING INC.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited, expressed in thousands of United States dollars, except per share amounts)

	Share Capital							
	Shares	Amount	Investment revaluation reserves	Foreign currency translation	Other reserves	Non-controlling interest	Deficit	Total
December 31, 2016	67,482,953	81,560	492	(752)	6,494	1,156	(21,557)	67,393
Shares issued on acquisition of Luna Gold Corp. (note 3)	48,446,123	56,364	-	-	1,569	-	-	57,933
Shares issued in financings (note 12)	41,709,586	48,526	-	-	-	-	-	48,526
Share issued to settle debt (note 10(b))	19,459,538	22,639	-	-	-	-	-	22,639
Shares issued on exercise of warrants	634,572	781	-	-	-	-	-	781
Share issue costs	-	(1,481)	-	-	-	-	-	(1,481)
Share-based compensation	-	-	-	-	500	-	-	500
Change in fair value of available-for-sale investments	-	-	680	-	-	-	-	680
Realized gain on available-for-sale investments reclassified to net income (loss)	-	-	(329)	-	-	-	-	(329)
Net income (loss)	-	-	-	-	-	(240)	14,331	14,091
Balance June 30, 2017	177,732,772	208,389	843	(752)	8,563	916	(7,226)	210,733
Balance December 31, 2015	11,107,207	15,327	(7)	(752)	6,263	-	(19,153)	1,678
Shares issued in private placement	4,461,922	736	-	-	(760)	-	-	(24)
Change in fair value of available-for-sale investments	-	-	383	-	-	-	-	383
Share based compensation	-	-	-	-	52	-	-	52
Net loss	-	-	-	-	-	-	(1,799)	(1,799)
Balance June 30, 2016	15,569,129	16,063	376	(752)	5,555	-	(20,952)	290

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

TREK MINING INC.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited, expressed in thousands of United States dollars)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by (used in):				
Operations:				
Net income (loss) for the period	$ 11,479	$ (851)	$ 14,091	$ (1,799)
Adjustments for:				
Amortization	208	-	314	1
Share based payments	245	28	280	52
Impairment of inventory	310	-	672	-
Recognition of unearned revenue	(42)	-	(79)	-
Change in fair value of derivative liabilities	(21,215)	572	(25,685)	903
Gain on sale of available-for-sale investments	-	-	(329)	-
Unrealized foreign exchange loss	1,009	4	682	(16)
Finance expense	1,087	-	1,946	41
Finance fees paid	-	-	(619)	-
Other	32	-	17	-
Changes in non-cash working capital:				
Accounts receivable, prepaid expenses and deposits	(794)	7	(1,966)	1
Inventory	(987)	-	(1,537)	-
Accounts payable and accrued liabilities	(959)	(126)	(285)	(102)
	(9,627)	(366)	(12,498)	(919)
Investing:				
Purchases of plant and equipment	(1,253)	-	(1,376)	(1)
Proceeds from sale of assets	23		23	
Purchase of marketable securities	-	-	(645)	-
Cash acquired on acquisition of Luna Gold Corp., net of advances	-	-	1,687	-
Proceeds from sale of available-for-sale investments	-	-	593	-
	(1,230)	-	282	(1)
Financing:				
Proceeds from equity financing, net of issuance costs	-	-	61,437	1,785
Repayment of long-term debt	-	-	(20,827)	-
	-	-	40,610	1,785
Effect of foreign exchange on cash and cash equivalents	(525)	(4)	(328)	16
(Decrease) increase in cash and cash equivalents	(11,382)	(370)	28,066	881
Cash and cash equivalents, beginning of period	80,079	2,225	40,631	974
Cash and cash equivalents, end of period	$ 68,697	$ 1,855	$ 68,697	$ 1,855
Non-cash investing and financing activities:				
Shares, options, warrants and RSU's issued on acquisition of Luna Gold Corp.	-	-	76,817	-
Shares and warrants issued to settle debt	-	-	25,516	-

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

1. Nature of operations

Trek Mining Inc. (the “Company” or “Trek Mining”) was incorporated under the Business Corporations Act of British Columbia on March 23, 2007. The Company changed its name from Lowell Copper Ltd. to JDL Gold Corp. on October 6, 2016 and from JDL Gold Corp. to Trek Mining Inc. in conjunction with the transaction discussed in note 3 on March 31, 2017.

The Company is listed on the TSX Venture Exchange (“TSX-V”) under the ticker symbol “TREK”.

On March 31, 2017, the Company acquired Luna Gold Corp. (“Luna”) (note 3) which wholly owns the Aurizona gold mine (“Aurizona” or “Aurizona Project”) in northeastern Brazil. The results of operations of Luna are included in these financial statements from March 31, 2017 onward.

At June 30, 2017, the Company’s primary assets are Aurizona, its 75% interest in the Koricancha Mill Joint Venture (“Koricancha”) in Peru and its 100% owned Warintza copper-molybdenum exploration property in Ecuador. The past -producing Aurizona Project was placed on care and maintenance in 2015, pending a revised resource estimate and feasibility study. The Company is now actively advancing Aurizona Project redevelopment in the areas of project financing, reengineering, permit updating and mineral resource expansion for a planned mine restart in late 2018. Koricancha is a toll milling operation that produces and sells gold by processing gold-bearing material purchased from small scale miners in Peru.

The Company also holds a portfolio of earlier-stage mineral properties located in Ecuador, Chile, British Columbia, Canada and several brownfields exploration projects and other exploration projects in Brazil located in the Luna Greenfields district, all of which are near the Aurizona Project. The Company is in the process of exploring these mineral properties and has not yet determined whether they contain mineral reserves where extraction is both technically feasible and commercially viable. The recoverability of these assets depends on identifying and developing such mineral property interest into economically minable reserves and, ultimately, on the extraction and sale of the related minerals.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has a substantial cash balance and positive working capital that it believes is sufficient to fund the Company’s current operations and business objectives. However, the Company has incurred operating losses to date and has limited history of revenue from operations. The Company will require additional capital beyond the next 12 months to fund construction of new and expanded infrastructure at Aurizona and other activities to achieve a planned mine restart at Aurizona in late 2018. The Company’s ability to continue as a going concern in the longer term is dependent on successful execution of its business plan, obtaining new debt or equity financing for construction and ultimately generating net income and positive cash flow from mining and milling operations.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements prepared using International Financial Reporting Standards ("IFRS"). The accounting policies followed in these condensed consolidated interim financial statements are the same as those applied in the Company's annual financial statements for the year ended December 31, 2016.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on August 28, 2017.

(b) Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

(c) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is having power over the entity, rights to variable returns from its involvement with the entity, and the ability to use its power to affect the amount of returns. All intercompany transactions and balances are eliminated on consolidation. For partially owned subsidiaries, the interest attributable to non-controlling parties is reflected in non-controlling interest.

Newly acquired significant subsidiaries (see note 3) of the Company include:

Company	Location	Ownership Interest
Luna Gold Corp.	Canada	100%
Aurizona Goldfields Corp.	Canada	100%
Luna Management Inc.	USA	100%
Mineração Aurizona S.A.	Brazil	100%

(d) Functional currency and presentation currency

Except as otherwise noted, these financial statements are presented in United States dollars ("US dollars"), the functional currency of the Company and its subsidiaries.

(e) Use of estimates and judgments

In preparing these interim financial statements, management has made judgments and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts incurred may differ from these values.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Company's most recent annual consolidated financial statements except for the following:

- Determination that the acquisition of Luna is a business combination and Trek Mining is the acquirer for accounting purposes; and
- Determination of the preliminary fair values of the assets and liabilities acquired.

2. Basis of preparation (continued)

(f) Accounting standards adopted during the year

On January 7, 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The Company adopted these amendments in its financial statements for the period beginning January 1, 2017, with no material impact on the financial statements.

On December 19, 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax basis at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine future income tax profits used for assessing the utilization of deductible temporary differences. The Company adopted these amendments in its financial statements for the period beginning January 1, 2017, with no material impact on the financial statements.

(g) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2018, including IFRS 2 *Share Based Payments*, IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* have not been applied in preparing these financial statements. The extent of the effects of the adoption of these standards on the consolidated financial statements has not yet been determined.

3. Acquisition of Luna Gold Corp.

On March 31, 2017, the Company completed the acquisition of Luna (the “Transaction”). Luna is engaged in the exploration and redevelopment of its past-producing Aurizona gold mine in northeastern Brazil, which was placed on care and maintenance in late 2015. Luna also owns several brownfields exploration projects and other exploration projects located in the Luna Greenfields district, all of which are in close proximity to the Aurizona Project. The acquisition supports the Company’s growth strategy and provides the Company with a flagship asset and enhanced production profile in Aurizona.

Under the terms of the agreement, the Company acquired all outstanding shares of Luna in exchange for 1.105 common shares of the Company. Holders of Luna options, warrants and restricted share units received equivalent Trek Mining options, warrants and restricted share units with the number of such securities issuable adjusted by the 1.105 exchange ratio.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

3. Acquisition of Luna Gold Corp. (continued)

By virtue of the Company issuing equity instruments and paying a premium to former Luna shareholders, the Company has been identified as the acquirer in the transaction and has accounted for the transaction as a business combination. Transaction costs of $0.4 million incurred relating to the acquisition were recognized in finance expense upon closing of the Transaction, including $0.2 million in share based compensation not attributable to the consideration. Total consideration paid is comprised of the following:

		Total
Share consideration (1)	$	56,364
Option consideration (2)		1,155
Warrant consideration (3)		18,884
RSU consideration (1)		414
Total consideration	$	76,817

(1) The fair value of 48,446,123 commons shares issued and 3,154,775 replacement restricted share units was based on the market price of the Company's shares on the acquisition date of Cdn $1.55 translated using the U.S. exchange rate of 0.7506. Of the total fair value attributable to the replacement restricted share units of $3.7 million, $0.4 million is attributable to the consideration and $3.3 million is attributable to post combination services and will be recognized over the remaining service period.

(2) The fair value of 1,738,501 replacement options was determined using the Black Scholes option pricing model with the following assumptions: expected volatility of 84%, dividend yield of 0%, expected life of 0.5 to 2.0 years, exercise price between Cdn $0.45 and Cdn $32.03, and a risk-free rate of 0.70%. Of the total fair value attributable to the replacement options of $1.4 million, $1.2 million is attributable to the consideration and $0.2 million is attributable to post combination service and will be recognized over the remaining service period.

(3) The fair value of 27,947,965 replacement warrants was determined using the Black Scholes option pricing model with the following assumptions: expected volatility between 76% and 85%, dividend yield of 0%, expected life of 1.5 to 3.25 years, exercise price between Cdn $0.91 and Cdn $2.26, and a risk-free rate between 0.67% and 0.84%.

The allocation of the purchase price has not been finalized as at the date these interim financial statements were issued as management is in the process of determining the fair values of identifiable assets acquired and liabilities assumed. The Company has not yet completed a valuation to determine amounts to be allocated to accounts receivable, inventory, property, plant and equipment, exploration and evaluation assets, convertible debenture and reclamation obligation or completed an assessment of the income tax balances. The purchase price was provisionally allocated as follows:

Net assets acquired		Total
Cash and cash equivalents	$	3,687
Accounts receivable, prepaid expenses and deposits(1)		13,653
Marketable securities(2)		4,016
Inventory		3,391
Mineral property, plant and equipment		141,837
Accounts payable and accrued liabilities		(5,125)
Long-term debt and convertible debenture		(73,103)
Reclamation obligation		(4,331)
Deferred tax liability		(5,839)
Other liabilities and provisions		(1,369)
	$	76,817

(1) The fair value of accounts receivable acquired of $13.4 million represents gross contractual amounts receivable of $15.3 million net of amounts not expected to be collected of $1.9 million.

(2) The fair value of marketable securities is based on the market price of securities on the date of the transaction.

The fair values of long-term debt settled in conjunction with the Transaction (notes 10(b) and (c)) were determined based on the consideration paid or issued. The fair value of the Sandstorm Debenture (note 10(a)), which has a stated interest rate of 5%, was determined based on a discounted cash flow model using a 15% discount rate.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

3. Acquisition of Luna Gold Corp. (continued)

Consolidated revenue and net loss for the three months ended June 30, 2017 includes revenues and net loss of Luna in the amount of $nil and $7.5 million, respectively. Had the transaction occurred January 1, 2017, pro-forma consolidated revenue and net loss for the six months ended June 30, 2017 would have been $5.8 million and $3.6 million, respectively.

4. Accounts receivable and deposits

		June 30, 2017		December 31, 2016
Value-added tax receivable	$	3,701	$	2,377
Income taxes receivable		619		-
Other receivables		1,658		805
Prepaid expenses and deposits		472		212
	$	6,450	$	3,394

The value-added tax receivable (“VAT”) represents primarily VAT paid in Peru for goods and services.

5. Inventory

		June 30, 2017		December 31, 2016
Supplies	$	493	$	86
Work-in-process		1,463		1,107
Finished goods		566		-
	$	2,522	$	1,193

As at June 30, 2017, work-in-process is recognized at its net realizable value. For the three and six months ended June 30, 2017 the Company recognized inventory adjustments of $0.3 million and $0.7 million, respectively, in cost of sales.

6. Other assets

		June 30, 2017		December 31, 2016
Value-added tax receivable (a)	$	11,136	$	-
Income taxes receivable (b)		839		-
Consumable stores inventory (c)		2,980		-
Reclamation bond		121		121
Other receivables		30		-
	$	15,106	$	121

(a) The Company has VAT receivable from the Brazilian federal government totaling $4.0 million (BRL 13.1 million) and from the Maranhão state government totaling $7.1 million (BRL 23.7 million). As an exporter, the Company’s sales are not subject to VAT. The Company must therefore seek reimbursement from federal and state governments for VAT paid on purchases. The Company has experienced delays receiving payment and considers these amounts to be non-current assets due to uncertainty with the timing of collection.

The Company has commenced legal action against the federal government for its failure to reimburse the Company for federal VAT on a timely basis. The Company continues to work with the state government to certify its state VAT credits and allow the Company to sell all or a portion of these credits in the event the Company continues to experience delays with reimbursement.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

6. Other assets (continued)

(b) Income tax receivable represents refundable Brazilian federal income taxes. The Company has experienced delays with receipt of payment of the amount due and has classified amounts due as non-current assets due to uncertainty with the timing of collection.

(c) As Aurizona is on care and maintenance, consumable stores inventory has been classified as a long-term asset as at June 30, 2017, as the Company does not expect to use this inventory in the next year.

7. Koricancha Mill Joint Venture

The Company holds a 75% interest in Koricancha, which is subject to an 8% cost of goods royalty payable to the Company. Summarized financial information for Koricancha:

	June 30, 2017	December 31, 2016
Current assets	$ 7,617	$ 5,477
Non-current assets	5,507	5,576
Current liabilities	20,958	18,027

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	$ 3,228	$ -	$ 5,842	$ -
Loss from milling operation	544	-	904	-
Net loss	573	-	960	-

8. AngloGold Joint Venture agreement

Through the acquisition of Luna, the Company became party to an earn-in and joint venture agreement (the "JV Agreement") with AngloGold Ashanti Plc ("AGA") whereby AGA can earn a 70% interest in the mineral claims in the Luna Greenfields district, which surrounds the Company's Aurizona mine. Pursuant to the JV Agreement, AGA can earn a 70% interest in the Greenfields properties by spending $14.0 million on exploration expenditures over a four-year period until 2020, with a minimum $2.0 million commitment in the first year. Should AGA earn-in and decide to sell its interest in the joint venture, Trek Mining can purchase AGA's interest in any JORC compliant resources for $10 per ounce of gold. The JV Agreement also contains certain dilution provisions in the event that either party elects not to contribute its proportionate share of costs post earn-in.

9. Unearned revenue

The Company has a precious metals sales agreement to sell refined gold produced (the "Gold Sales Agreement"). In exchange for delivering 3.5% of the gold ounces that are milled and processed by Koricancha, the Company received upfront deposits in 2015 and 2016 totaling $5.0 million (the "Upfront Deposit") and the Company receives $100 per ounce of gold delivered pursuant to the Gold Sales Agreement.

In the first quarter of 2017, the Gold Sales Agreement was amended such that gold sales cash flow requirements will be, at a minimum, $1.5 million in each of the calendar years 2018, 2019, and 2020, and $0.5 million in the calendar year 2021.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

9. Unearned revenue (continued)

Reconciliation of the balance of unearned revenue:

		June 30, 2017		December 31, 2016
Balance, beginning of period	$	4,090	$	4,136
Recognized in revenue		(79)		(46)
Balance, end of period		4,011		4,090
Current portion		600		600
Long-term portion	$	3,411	$	3,490

10. Convertible debenture

		June 30, 2017
Balance, beginning of period	$	-
Debt acquired from acquisition of Luna (note 3)		73,103
Cash repayment of long term debt		(20,827)
Shares and warrants issued to settle long term debt		(25,516)
Accretion and accrued interest		1,015
Balance, end of period		27,775
Current portion		13,139
Long-term portion		14,636

(a) Sandstorm debenture

Through the acquisition of Luna, the Company assumed Luna's $30.0 million debenture with Sandstorm Gold Ltd. (the "Sandstorm Debenture"). The Sandstorm Debenture bears interest at a rate of 5% per annum and is repayable in three equal annual tranches of $10.0 million plus accrued interest beginning June 30, 2018. The Company has the right to repay the principal and interest owing on each repayment date with common shares of the Company. The number of common shares to be issued is determined based on the principal and interest to be repaid divided by the higher of Cdn $0.90 per share and the 20-day volume weighted average Cdn dollar trading price of the Company's common shares (the "Conversion Price") provided that Sandstorm owns less than 20% of the outstanding common shares of the Company after such share issuance (the "Sandstorm Ownership Limitation").

The Company can choose to postpone the payment of any instalment until a point when the issuance of shares would not exceed the Sandstorm Ownership Limitation. The Company also has the right to convert up to $5.0 million of the Sandstorm Debenture quarterly at the Conversion Price subject to the Sandstorm Ownership Limitation.

The Sandstorm Debenture, including accrued interest, was recognized at its estimated fair value of $26.8 million upon acquisition of Luna on March 31, 2017. At June 30, 2017, the balance of principal and accrued interest due is $33.1 million. Interest on the Sandstorm Debenture is recognized at the effective interest rate of 15% which amortizes the difference between the carrying value and the principal amount over the term to maturity.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

10. Convertible debenture (continued)

(b) Sandstorm debt facility

Through the acquisition of Luna, the Company assumed Luna's $20.0 million debt facility with Sandstorm (the "Sandstorm Debt Facility"). The Sandstorm Debt Facility was recognized at $25.5 million upon acquisition of Luna based on the fair value of consideration transferred to settle the debt which consisted of 10,942,896 common shares of the Company and 8,516,642 Settlement Units. Each Settlement Unit consisted of one common share and one common share purchase warrant exercisable at Cdn $3.00 per warrant.

The fair value of consideration transferred in settlement of the debt was based on the market price of the common shares and the Settlement Units issued on March 31, 2017 of Cdn $1.55 and Cdn $2.00, respectively. The fair value of the Settlement Units was based on the subscription price of a private placement of units which occurred on March 31, 2017 with identical terms as the Settlement Units. As the warrants have a Canadian dollar exercise price and the functional currency of the Company is the US dollar, the warrants are treated as derivatives. $2.9 million of the total fair value of the Settlement Units was allocated to the warrants with the remainder allocated to the common shares. In aggregate, with the common shares issued on settlement, a total of $22.6 million was allocated to the common shares. The fair value of the warrants was determined based on the public trading price of these warrants on March 31, 2017 of Cdn $0.45 per warrant. The settlement resulted in no gain or loss.

(c) Pacific Road debt

Through the acquisition of Luna, the Company acquired Luna's Cdn $20.0 million senior secured note due June 30, 2020 and $5.0 million senior secured short term note due March 31, 2017 with Pacific Road Resources Fund. The notes were repaid in full on close of the Transaction for $20.8 million, including accrued interest of $0.8 million.

11. Derivative liability

As the exercise price of certain of the Company's share purchase warrants is fixed in Canadian dollars, and the functional currency of the Company is the US dollar, these warrants are considered a derivative as a variable amount of cash in the Company's functional currency will be received on exercise. Accordingly, these share purchase warrants are classified and accounted for as a derivative liability at fair value through profit or loss. The fair value of the warrants is determined using the Black Scholes option pricing model at the period-end date or the market price on the TSX-V for warrants that are trading.

		June 30, 2017		December 31, 2016
Balance, beginning of period	$	17,275	$	-
Issuance of warrants in financings (note 12)		14,088		15,595
Issuance of warrants for settlement of debt (note 10(b))		2,877		-
Issuance of replacement warrants in Transaction (note 3)		18,884		2,710
Warrants exercised and expired		(477)		-
Change in fair value		(25,685)		(1,030)
Balance, end of period	$	26,962	$	17,275

The fair value for non-traded warrants as at June 30, 2017 was calculated with the following weighted average assumptions:

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

11. Derivative liability (continued)

	June 30, 2017	December 31, 2016
Risk-free interest rate	0.9%	0.9%
Warrant expected life	2.9 years	2.9 years
Expected volatility	79.3%	99.3%
Expected dividend	0%	0%
Share price (Cdn)	$1.12	$1.82

The fair value of traded warrants was based on the market price of Cdn $0.22 per warrant on June 30, 2017.

12. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. At June 30, 2017, 177,732,772 common shares were issued and outstanding.

On March 31, 2017, in conjunction with the Transaction, the Company closed a non-brokered private placement financing for 31,709,586 units at a price of Cdn $2.00 per unit for gross proceeds of $47.6 million (Cdn $63.4 million), and a bought deal financing of 10,000,000 units at a price of Cdn $2.00 per unit for gross proceeds of $15.0 million (Cdn $20.0 million). In aggregate, 41,709,586 units were issued for gross proceeds of $62.6 million (Cdn $83.4 million). Each unit is comprised of one common share and one common share purchase warrant, where each warrant entitles its holder to acquire one common share of the Company at an exercise price of Cdn $3.00 for a period of five years.

As the warrants have Canadian dollar exercise prices and the functional currency of the Company is the US dollar, the warrants are treated as derivatives. Accordingly, $14.1 million of the proceeds of $62.6 million was allocated to the warrants based on their fair value with the residual $48.5 million allocated to the common shares. The fair value of the warrants was calculated using the market price on the TSX-V.

Share issue costs of $1.9 million related to the private placement were allocated proportionately to expense ($0.4 million) and share capital ($1.5 million) based on the values assigned to the warrants and common shares, respectively.

(a) Share purchase options

The Company has an incentive stock option plan (the “Option Plan”) whereby the Company may grant stock options to eligible employees, officers, directors and consultants with the exercise price, expiry date, and vesting conditions determined by the Board of Directors. The maximum expiry date is five years from the grant date. All options are equity settled. The Option Plan provides for the issuance of up to 10% of the Company’s issued common shares as at the date of the grant.

A summary of the Company’s share purchase options is as follows:

	Number of shares issuable on exercise of options		Weighted average exercise price (Cdn)
Outstanding December 31, 2016	1,722,209	$	2.64
Issued on the acquisition of Luna (note 3)	1,738,501		1.37
Expired/forfeited	(111,480)		3.30
Outstanding, June 30, 2017	3,349,230	$	1.96

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

12. Share capital (continued)

At June 30, 2017, the Company had the following options issued and outstanding:

Options Outstanding			Options Exercisable	
Expiry date	Number	Exercise price (Cdn)	Number	Remaining contractual life (years)
November 9, 2017	3,869	$ 32.13	3,869	0.36
April 12, 2018	34,035	27.24	34,035	0.78
June 6, 2018	7,736	18.10	7,736	0.93
August 22, 2018	1,658	14.03	1,658	1.15
January 23, 2019	479,061	3.48	479,061	1.57
March 31, 2019	9,945	10.50	9,945	1.75
April 16, 2019	115,200	1.67	115,200	1.79
May 23, 2019	4,973	9.77	4,973	1.90
June 18, 2019	8,840	9.86	8,840	1.97
February 13, 2020	253,480	2.90	253,480	2.62
May 22, 2020	110,500	1.27	66,300	2.89
July 7, 2020	110,500	0.72	66,300	3.02
October 14, 2020	330,000	2.92	330,000	3.29
December 18, 2020	1,436,500	0.45	623,220	3.47
June 2, 2021	255,802	1.55	130,232	3.92
July 13, 2021	160,000	1.38	160,000	4.04
August 2, 2021	27,131	2.00	6,783	4.09
	3,349,230		2,301,632	

The weighted average exercise price of options exercisable at June 30, 2017, was Cdn $2.55.

(b) Share purchase warrants

At June 30, 2017, the Company had 113,999,894 (December 31, 2016 – 37,090,479) share purchase warrants outstanding. A continuity of the Company's share purchase warrants is as follows:

	Shares issuable on exercise of warrants	Weighted average exercise price (Cdn)
Outstanding, December 31, 2016	37,090,479	$ 2.93
Issued in the acquisition of Luna (note 3)	27,947,965	1.15
Issued in equity financings	41,709,586	3.00
Issued to settle Sandstorm Debt facility (note 10(b))	8,516,642	3.00
Exercised	(634,572)	0.83
Expired	(630,206)	1.67
Outstanding, June 30, 2017	113,999,894	$ 2.54

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

12. Share capital (continued)

At June 30, 2017, the Company had the following share purchase warrants issued and outstanding:

Number of warrants	Exercise price (Cdn)	Expiry date
1,632,848	$ 4.64	July 9, 2018
757,185	2.92	April 16, 2019
489,402	4.17	June 26, 2020
7,505,457	1.13	June 30, 2020
16,575,000	0.90	June 30, 2020
189,648	4.17	July 6, 2020
122,979	2.92	December 16, 2020
36,999	2.92	January 15, 2021
124,999	2.92	February 28, 2021
2,230,950	1.29	March 24, 2021
3,867,508	2.26	August 29, 2021
80,466,919	3.00	October 6, 2021
113,999,894		

(c) Share-based compensation

The fair value of share-based compensation is determined using the Black Scholes option pricing model. Total compensation expense charged to income for the three and six months ended June 30, 2017 was $0.2 million and $0.5 million, respectively.

(d) Restricted share units

Under the terms of the Trek Mining Restricted Share Unit Plan (“RSU Plan”) the Board may, from time to time, grant to employees, officers and consultants, an irrevocable right to receive restricted share units (“RSUs”) in such numbers and for such terms as may be determined by the Board. RSUs granted under the RSU Plan are exercisable after the vesting conditions, as specified by the Board, are met and until the third calendar year after the year in which the RSUs have been granted. The RSUs are settled in common shares.

Through the acquisition of Luna, the Company issued 3,154,775 replacement RSUs to officers and employees of which 944,775 have a service condition and 2,210,000 have both a service and non-market based performance conditions which affect vesting. The performance based RSUs vest on each of the dates when financing for the construction of the Aurizona Project is secured, upon completion of the project ahead of schedule and under budget, when commercial production of the mine is reached and one year after the date when positive cash flows have been earned from the mine. The replacement RSUs are governed by Luna’s Restricted Share Unit Plan and may be settled in shares or cash at the Company’s option. The Company intends to settle each RSU with one common share of the Company.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

13. Cost of sales

Cost of sales for the Company consists of the following components:

	Three months ended June 30, 2017	Six months ended June 30, 2017
Operating costs		
Acquisition of mill feed	$ 2,762	$ 4,543
Production costs	1,717	3,263
Employee salaries and benefits	122	231
Change in inventory	(975)	(1,540)
Total operating costs	3,626	6,497
Amortization	146	250
Total cost of sales	$ 3,772	$ 6,747

14. Income (loss) per share

For the three months ended June 30, 2017, 1,907,080 options and 90,549,429 warrants were anti-dilutive because the underlying exercise prices exceeded the average market price of Cdn $1.25. For the six months ended June 30, 2017, 1,747,080 options and 88,318,479 warrants were anti-dilutive because the underlying exercise prices exceeded the average market price of Cdn $1.51.

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	Income for the period attributable to Trek Mining Shareholders	Weighted average shares outstanding	Income per share attributable to Trek Mining Shareholders	Income for the period attributable to Trek Mining Shareholders	Weighted average shares outstanding	Income per share attributable to Trek Mining Shareholders
Basic income (loss) per share	$ 11,622	177,732,773	$ 0.07	$ (851)	15,569,131	$ (0.05)
Effect of dilutive securities:						
Warrants	(6,208)	5,228,340		-	-	
Options	-	965,362		-	-	
RSUs	-	626,113		-	-	
Diluted income (loss) per share	$ 5,414	184,552,588	$ 0.03	$ (851)	15,569,131	$ (0.05)

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

14. Income (loss) per share (continued)

	Six months ended June 30, 2017			Six months ended June 30, 2016		
	Income for the period attributable to Trek Mining Shareholders	Weighted average shares outstanding	Income per share attributable to Trek Mining Shareholders	Income for the period attributable to Trek Mining Shareholders	Weighted average shares outstanding	Income per share attributable to Trek Mining Shareholders
Basic income (loss) per share	$ 14,331	122,986,085	$ 0.12	$ (1,799)	13,509,782	$ (0.13)
Effect of dilutive securities:						
Warrants	(7,541)	3,083,184		-	-	
Options	-	499,645		-	-	
RSUs	-	275,369		-	-	
Diluted income (loss) per share	$ 6,790	126,844,283	$ 0.05	$ (1,799)	13,509,782	$ (0.13)

15. Other income (expense)

Other income (expense) consists of the following components:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Change in fair value of derivative liabilities	$ 21,215	$ (572)	$ 25,685	$ (903)
Foreign exchange gain (loss)	(358)	2	56	6
Gain on sale of investments	-	-	329	-
Other income	(10)	-	(8)	-
Other income (expense)	$ 20,847	$ (570)	$ 26,062	$ (897)

The change in fair value of derivative liabilities is due to the traded value of 41,709,586 units decreasing from Cdn $0.45 to Cdn $0.22 per warrant from March 31, 2017 to June 30, 2017 and the change in the Black-Scholes Option Pricing Model fair values in the remainder of options.

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

16. Segmented information

	Koricancha	Exploration Aurizona	Exploration Other	Corporate	Total
Three months ended June 30, 2017					
Revenues	$ 3,207	$ -	$ -	$ -	$ 3,207
Net income (loss)	(565)	(7,531)	(367)	19,942	11,479
Three months ended June 30, 2016					
Revenues	$ -	$ -	$ -	$ -	$ -
Net income (loss)	-	-	(146)	(705)	(851)

	Koricancha	Exploration Aurizona	Exploration Other	Corporate	Total
Six months ended June 30, 2017					
Revenues	$ 5,779	$ -	$ -	$ -	$ 5,779
Net income (loss)	(968)	(7,531)	(798)	23,388	14,091
Six months ended June 30, 2016					
Revenues	$ -	$ -	$ -	$ -	$ -
Net income (loss)	-	-	(577)	(1,222)	(1,799)

	Koricancha	Exploration Aurizona	Exploration Other	Corporate	Total
June 30, 2017					
Total assets	$ 36,013	$ 170,883	$ 17,842	$ 60,094	$ 284,832
Total liabilities	7,653	60,330	90	6,026	74,099
December 31, 2016					
Total assets	$ 34,039	$ -	$ 17,625	$ 38,263	$ 89,927
Total liabilities	7,694	-	67	14,773	22,534

Geographical information

Revenue is attributable to operations in Peru. Information about the Company's non-current assets by jurisdiction is detailed below:

	June 30, 2017	December 31, 2016
Peru	$ 28,099	$ 28,163
Brazil	157,779	-
Canada	15,290	15,297
Ecuador	189	189
Chile	263	263
	$ 201,620	$ 43,912

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

17. Fair value measurements

The fair value hierarchy establishes three levels in which to classify the inputs of valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity) such as non-corroborative indicative prices for a particular instrument provided by a third party.

As at June 30, 2017, marketable securities and traded warrants are measured at fair value using Level 1 inputs and non-traded warrants are measured at fair value using Level 2 inputs. For disclosure purposes, the fair value of long-term debt is determined using Level 2 inputs. The carrying values of cash and cash equivalents, receivables, reclamation bond and accounts payable and accrued liabilities approximate fair value due to their short terms to maturity.

Marketable securities are designated as available-for-sale investments. Fair value is measured based on the quoted market price of the related common shares at each reporting date, and changes in fair value are recognized in other comprehensive income.

The fair value of the traded warrants is measured based on the quoted market price of the warrants at each reporting date. The fair value of the non-traded warrants is determined using an option pricing formula (note 11).

The fair value of long-term debt used for disclosure purposes is determined using discounted cash flows based on the expected amounts and timing of the cash flows discounted using a market rate of interest adjusted for appropriate credit risk. As at June 30, 2017, the carrying value of the convertible debenture approximates its fair value based on market rates of interest.

The following table provides the fair value of each classification of financial instrument:

		June 30, 2017		December 31, 2016
Financial assets:				
Loans and receivables				
Cash and cash equivalents	$	68,697	$	40,631
Reclamation bond		121		121
Available-for-sale investments		5,545		797
Total financial assets		74,363		41,549
Financial liabilities:				
Traded warrants	$	13,629	$	13,063
Non-traded warrants		13,333		4,212
Other:				
Accounts payable and accrued liabilities		3,464		843
Convertible debenture		27,775		-
Total financial liabilities	$	58,201	$	18,118

(Unaudited, expressed in thousands of United States dollars, except share and per share amounts)

18. Commitments and contingencies

At June 30, 2017, the Company had the following contractual obligations outstanding:

	Total	Within 1 year	1-2 years	2-3 years	3-4 years	4–5 years	Thereafter
Convertible debenture	$ 30,000	$ 10,000	$ 10,000	$ 10,000	$ -	$ -	$ -
Interest on convertible debenture	6,357	4,827	1,019	511	-	-	-
Accounts payable and accrued liabilities	3,464	3,464	-	-	-	-	-
Lease commitments	687	305	242	107	33	-	-

The Company is a defendant in various lawsuits and legal actions, principally for alleged fines, taxes and labour related matters in Brazil. Management regularly reviews these lawsuits and legal actions with outside counsel to assess the likelihood that the Company will ultimately incur a material cash outflow to settle the claim. To the extent management believes it is probable that a material cash outflow will be incurred to settle the claim, a provision for the estimated settlement amount is recorded. As of June 30, 2017, the Company recorded a legal provision for these items totaling $1.5 million.