

DYNASTY METALS & MINING INC.
(the "Company")

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2016**

A) Date and Subject of this Discussion and Analysis

This management's discussion and analysis (the "MD&A"), which is dated and has been prepared based on information available as at May 13, 2016, is integral to, and should be read in conjunction with, the Company's unaudited financial statements for the three months ended March 31, 2016 and the Company's audited financial statements for the years ended December 31, 2015 and 2014 (the "Audited Financial Statements"). These documents, and additional information relating to the Company, including the Company's Annual Information Form dated March 30, 2016, are available for viewing on SEDAR at www.sedar.com. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are in United States dollars unless otherwise noted.

B) Cautionary Statement Regarding Forward-Looking Information

This MD&A contains statements which are, or may be deemed to be, "forward-looking information" which are prospective in nature. Often, but not always, forward-looking information can be identified by the use of forward-looking words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such information in this MD&A includes, without limitation, statements regarding Dynasty's future plans and expectations relating to the Zaruma mine development and mineral extraction, the impact of the labour stoppage at the Zaruma mine, the development of certain concessions at the Dynasty Goldfield Project and the sale of the Company's two non-resource mining concessions and the use of the proceeds derived therefrom. Forward-looking information is not based on historical facts, but rather on then current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including assumptions relating to the Company's ability to continue production at the Zaruma mine despite the labour stoppage, that the Company will be able to continue its progress as currently planned and will not have to make additional changes to the mine plan, that the agreement with Green Oil will result in the extraction of sufficient tonnage from the Dynasty Goldfield Project, that the Company will continue to sell processed gold and silver at levels that allow it to fund the continued development of its mining projects and sustain its operations, that the Company will have access to capital if required, that all necessary approvals and arrangements will be obtained, renewed and/or finalized in a satisfactory manner in order to continue developing the Company's projects, and that the Company's equipment will operate at expected levels. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause Dynasty's actual results, revenues, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Important risks that could cause Dynasty's actual results, revenues, performance or achievements to differ materially from Dynasty's expectations include, among other things: (i) risks related to the labour stoppage and the ability of the Company to obtain contract miners, if required, (ii) risks related to the uncertainty of the Company's ability to successfully negotiate the deferral of taxation amounts owned the Ecuadorean government, (iii) that the Company will be able to generate sufficient cash flow to continue as a going concern, (iv) risks related to the Company obtaining approval from the Ministry of Mines for the sale of two non-resource mining concessions (v) risks related to prior mining activity at its mines and declines, (vi) uncertainties relating to mineral resource estimates (vii) risks related to availability of capital on satisfactory terms, (viii) risks related to Dynasty's lack of history in producing metals from Dynasty's mineral exploration properties and its ability to successfully establish mining operations or profitably produce precious metals; (ix) changes in the market prices of gold, silver, and other minerals, which, in the past, have fluctuated widely and which could affect the profitability of Dynasty's operations and financial condition; (x) risks related to governmental regulations, including taxation statutes; (xi) risks related to Dynasty's primary properties being located in Ecuador, including political, economic, and regulatory instability and other risks found in Dynasty's Annual Information Form for the year ended December 31, 2015 which is available on SEDAR at www.sedar.com. Other than in accordance with its legal or regulatory obligations, Dynasty is not under any obligation and Dynasty expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

C) Cautionary Note to United States Investors

As a reporting issuer in Canada, the Company is required by Canadian law to provide disclosure respecting its mineral interests in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101"). Accordingly, readers are cautioned that the information contained in this MD&A may not be comparable to similar information made public by United States companies under the United States federal securities laws and the rules and regulations thereunder. The Company does not report to the United States Securities and Exchange Commission and, in particular, the terms "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" as may be used herein are not defined in SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC.

Further, the terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms, the definitions of which differ from the definitions of the SEC.

In addition, United States investors are cautioned that the Company's financial statements do not conform with, nor are they reconciled to, accounting principles generally accepted in the United States.

D) Scientific and Technical Information

Scientific and technical information relating to the Company's mineral properties contained in this MD&A were reviewed and approved by Brian Speechly, a Fellow of AusIMM (Australian Institute of Mining and Metallurgy), a director of the Company, and a "qualified person" as defined by NI 43-101. All mineral resources have been calculated in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum. Mineral resources which are not mineral reserves do not have demonstrated economic viability. Information on data verification performed on the mineral properties mentioned in this MD&A that are considered to be material mineral properties to the Company are contained in the current technical reports for those properties, all available under the Company's profile at www.sedar.com.

E) Non-GAAP Financial Measures

Throughout this discussion, reference is also made to "cash costs per ounce", "cash costs per tonne" and "all-in sustaining cash cost" which the Company considers to be an indicative measure of operating performance and a metric to evaluate profitability. Such measures are not generally accepted earnings measures and should not be considered as an alternative to operating costs as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Company's "cash costs per ounce", "cash costs per tonne" and "all-in sustaining cash cost" may not be directly comparable with similarly titled measures used by other companies. Reconciliations of such measures are included in this MD&A.

F) Description of Business

The Company is a reporting issuer in the provinces of British Columbia, Alberta and Ontario, Canada. On August 2, 2007 its securities were listed for trading on the Toronto Stock Exchange under the symbol "DMM". The Company is in the business of acquiring, exploring and developing mineral concessions in Ecuador. From inception until 2010, the Company had funded substantially all of its operating and capital expenses with proceeds from the sale of capital stock. From 2010 and up until September 30, 2013, mine development expenses and overhead were primarily funded from the sale of precious metals produced during mine construction at the Zaruma Gold Project. During this time the Company was in the pre-commercial stage of operations having yet to reach the stage of sustainable commercial production.

In the fourth quarter of the year ended December 31, 2013, Management determined that commercial production at the Zaruma Gold Project had commenced for accounting purposes, as the mine was operating as intended. This decision was based on a number of factors including, amongst others, the completion of operational commissioning of major mine components, the achievement of consistent operating results for a period of time and the indication that these results will continue. For accounting purposes the Company commenced recognizing net income from production effective October 1, 2013.

Continuing operations continue to be dependent upon the Company's ability in the future to mitigate the risks and overcome

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the challenges generally associated with comparable development and early stage production enterprises. Most significantly, it must either generate sufficient cash flow from the sale of precious metals in the future or secure additional working capital from debt or equity financings or through the profitable sale of capital assets, as required, neither of which is assured.

The Company's head and principal office is located at Suite 270, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. The Company's registered and records office is located at Suite 300, 204 Black Street, Whitehorse, Yukon Y1A 2M9. The Company also maintains an office in Quito, Ecuador. The following table lists the Company's principal operating subsidiaries, their jurisdiction of incorporation and its percentage ownership of their voting securities:

Name	Place of Incorporation	Percentage Ownership
Empire Sun Investments Limited	British Virgin Islands	100%
Elipe S.A.	Ecuador	100% ⁽¹⁾
Polimines Corporation	Panama	100% ⁽¹⁾
Golden Valley Planta S.A.	Ecuador	100% ⁽²⁾
Greentrade Ecuador Overseas Inc.	Panama	100% ⁽¹⁾
Operaciones Greentrade S.A.	Ecuador	100% ⁽³⁾
Minsupport S.A.	Ecuador	100% ⁽³⁾

- (1) Elipe S.A. ("Elipe"), and Greentrade Ecuador Overseas Inc. ("Greentrade Ecuador") are 100% beneficially owned by Empire Sun Investments Limited ("Empire Sun"). Elipe is the registered owner of all of the Corporation's mineral concessions and Polimines Corporation and Greentrade Ecuador are holding companies.
- (2) Golden Valley Planta S.A. ("Golden Valley") is 100% beneficially owned by the Corporation. Golden Valley was established to obtain permits to process the material from the mineable properties owned by Elipe, in due course, under contract.
- (3) Operaciones Greentrade S.A. ("Greentrade") and Minsupport S.A. ("Minsupport") are 100% beneficially owned by Greentrade Ecuador. These entities were initially incorporated to administer employee labour contracts, which were subsequently transferred to Elipe and Golden Valley.

G) Corporate Update

1. Zaruma Mine

At the beginning of the first quarter of 2016, mining ramped up slowly following the holiday break. Midway through the quarter, labour relations with mine workers began to deteriorate resulting in intermittent work slow-downs and stoppages to the end of the quarter and into the second quarter.

At the deeper levels of the Cabo de Hornos decline, which was extended during the past 18 months, the decision was made to develop existing significant resources that have been made available by the current decline. Some areas of these resources are accessible and others will be accessible by dewatering.

In its press release dated April 1, 2016, the Company announced an unexpected walkout by workers at its Zaruma gold mine that resulted in the suspension of most mining activities at the mine, therefore, mining activity has been limited and sporadic resulting in significantly lower than planned tonnage mined into the second quarter of 2016. During the course of the worker walkout at the start of the second quarter, Dynasty was able to move several small, lower grade underground ore stockpiles to the Zaruma mill for processing. Management confirms that the mine and mill sites have been secure during the work stoppage and there has been no damage to property or equipment. Dynasty continues to focus on resolving issues with its labour force and has been working with government labour experts to come to a solution equitable to all parties. Dynasty is also considering supplementing its existing underground labour force with contract miners to increase tonnage from the mine, once current labour issues are settled. The labour situation will impact production estimates for the second quarter of 2016, however, the Company is exploring other opportunities to increase cash flow to mitigate impact of work stoppage, including, but not limited to, the sale of non-core assets, such as mining claims that do not contain mineral resources. In this regard, the

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Company entered into an agreement in the first quarter of 2016 for the sale of two non-resource mining concessions that are part of the Zaruma Project for aggregate net proceeds of \$600,000. To-date, \$300,000 of the purchase price has been paid to the Company and the completion of the agreement is subject to final approval of the Ministry of Mines. Net proceeds from the sale of such non-core concessions are to be used for working capital purposes as well as payment of outstanding indebtedness to the Government of Ecuador and suppliers.

As a result of both the labour issues and reworking of the mine plan, tonnage mined during the first quarter of 2016 decreased significantly (by 12,407 tonnes) over the previous quarter. Grade of material mined also continued to be lower than plan due to the mixing of lower grade development material with limited resource grade and a certain amount of the mineralized material being mined outside the defined mineral resource.

The primary access to the Zaruma mine is the Cabo de Hornos decline, which extends approximately 3.5 kilometres from the portal entrance at mine Level 700 to its full extent at mine Level 360, where it splits to extend both north and south. The majority of the higher grade material previously mined at Zaruma was extracted from veins presenting between Level 600 to Level 450, much of which contains water at this time. With the decline extended below this area, it is now possible to sequentially dewater many of these older sections to access the remaining mineralized material, the majority of which makes up the defined mineral resource estimate at Zaruma. Due to a shortage of capital, Dynasty has not begun this activity to date however, when capital is available, the Company intends to undertake the dewatering and mine as much of the remaining higher grade material as possible. Management believes this has the potential to significantly improve tonnage, grade and overall gold production while reducing the total cash cost per ounce.

2. Zaruma Mill

With reduced tonnage mined in the first quarter of 2016, the Zaruma mill ran at a significantly reduced capacity. Due to high fixed costs at the Zaruma mill, running lower tonnage causes a significant increase in all-in cash cost per ounce. Subsequent to March 31, 2016, Dynasty entered into an agreement with Green Oil S.A. (see 4 below and Section M, "Subsequent Events" of this MD&A) whereby additional mineralized material may be sourced at the Dynasty Goldfield project and added to the Zaruma tonnage processed at the Zaruma mill. The additional tonnage would result in a decrease in the overall cash cost to process each ounce, irrespective of origin of mineralized material.

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3. Zaruma Gold Project Operating Results

	Three months ended				
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Gold Revenue	\$ 3,261,235	\$ 6,306,494	\$ 6,143,017	\$ 4,220,239	\$ 3,428,947
Gold sales (ounces)	2,785	5,634	5,447	3,507	2,777
Average realized price per ounce	\$ 1,171	\$ 1,119	\$ 1,128	\$ 1,203	\$ 1,235
Mined material milled (tonnes)	19,399	32,167	33,584	17,574	24,344
Average grade (grams/tonne)	3.97	4.37	6.28	6.13	6.17
Average recovery (%)	89.7	91.4	92.6	93.8	92.8
Gold production (ounces)	2,221	4,133	6,285	3,245	4,481
Cash costs (\$/oz Au) ^(a,b)	\$ 1,847	\$ 1,596	\$ 859	\$ 1,680	\$ 1,484
Cash costs (\$/tonne Au) ^(a,b)	\$ 211	\$ 205	\$ 161	\$ 310	\$ 273
All-in sustaining cash cost (\$/oz Au) ^(a,b)	\$ 2,441	\$ 2,147	\$ 1,171	\$ 2,269	\$ 1,880

(a) Net of by-product credits

(b) Non-GAAP measure. See Section O of this MD&A

The difference between gold production and sales for the three months ended March 31, 2016 was the result of the timing of gold pours and delivery of payment.

During the three months ended March 31, 2016 the company produced 2,221 ounces of gold from processing 19,399 tonnes of material with an average grade of 3.97 grams per tonne of gold ("g/t Au") compared to the three months ended March 31, 2015 when the company produced 4,481 ounces of gold from processing 24,344 tonnes of material with an average grade of 6.17 g/t Au.

Additionally, as previously disclosed, it is not uncommon or unexpected to encounter areas of mineral deposit at the Zaruma Project with significantly higher or lower grades as compared to the average grade disclosed in the Company's mineral resource estimate, since the resource at Zaruma is known to contain a significant variability in grade between different areas, which are often in close proximity to each other. As a result, it is unlikely for the Company to achieve a consistent monthly production profile until material is mined from multiple veins.

4. Dynasty Goldfield Project

From 2003 until 2008 (when the Ecuador Government introduced an exploration moratorium), Dynasty carried out geological mapping, sampling, geophysical surveys and diamond drilling on the Dynasty Goldfield project. Since that time, little additional work has been undertaken on this property with the exception of a NI43-101 mineral resource estimate compiled from drill data completed in earlier years. In February 2016, the Company received the Environmental Authorization for the Dynasty Goldfield Project located approximately 160km southwest of Dynasty's Zaruma gold mine and mill.

The Dynasty Goldfield Project is qualified under Ecuador's small scale mining regime and subject to a fixed 3% royalty and no windfall tax, with no need to sign a mining contract with the Government. The small scale mining regime allows open pit activities with an exploitation volume of up to 1,000 tonnes a day per concession, a total of 3,000 tonnes per day for the three concessions under consideration.

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In the company's efforts to pursue strategic alternatives to advance its other key projects, subsequent to the end of the first quarter, Dynasty has entered into a definitive three-year agreement with Green Oil S.A. ("Green Oil"), an Ecuadorean company, in respect of its Dynasty Goldfield project. Green Oil will act as contractor for the development of specific mining concessions.

Under the terms of this agreement, Green Oil will focus on surface excavation of mineralized material on three of Dynasty's mining concessions within the Dynasty Goldfield Project, each of which is fully permitted and qualified under Ecuador's special regime for small scale mining. The designation of 'small scale' allows for the open pit mining of up to 1,000 tonnes per concession per day. Within two months of commencement of mining activities, Green Oil must excavate a minimum of 400 tonnes per day and 750 tonnes per day by the beginning of the third month. Green Oil has the right to mine open pitable surface material only and Dynasty retains the right to explore and develop any and all underground mineralization on these three concessions. Dynasty retains all rights to mineralized material developed underground within or beyond the three year term of this agreement.

Once government approval has been granted, Green Oil will begin construction of two roads, under the direction of Dynasty, connecting the project area to a main transportation route. Construction will begin no later than 15 days following Dynasty's making the requisite reclamation bond payment to the Ecuador Government. Green Oil will bear the cost for the road construction as well as for all development, mining and transportation of mineralized material.

The terms of the arrangement specify that Green Oil will begin exploitation (open pit excavation under the direction of Dynasty) within 60 days of commencing road construction. Green Oil will be responsible for transportation of mineralized material from the point of excavation to the Zaruma processing plant, approximately 180 km away. Green Oil is also responsible for securing the mineralized material during transport and tracking truck loads via satellite from the point of excavation to the Zaruma mill.

Green Oil's compensation will be based on the cash equivalent of 35% of refined gold sales and 10% of refined silver sales from the concessions defined under this agreement only using international pricing of both commodities for payment calculation. Green Oil will cover the proportional cost of transportation and refining costs as per the above percentages.

In addition, the agreement with Green Oil contains an unsecured loan provision for a total of \$500,000. As a gesture of goodwill, Green Oil has advanced the Company \$170,000 of this loan commitment which will enhance the Company's liquidity while preliminary development work under the agreement is completed. Repayment of this loan will be made in three equal installments in months three, four and five following the commencement of mining activities with financial resources coming from commercialization of relevant production.

The mineral resource estimate for the Dynasty Goldfield Project is as follows:

Category	Tonnes (Thousands)	Au (g/t)	Ag (g/t)	Contained Au (1,000 ozs)	Contained Ag (1,000 ozs)
Measured	2,909	4.7	38.1	437	3,567
Indicated	3,958	4.6	38.8	585	4,936
Total Measured + Indicated	6,867	4.6	38.5	1,022	8,504
Inferred	7,825	4.4	39.4	1,118	9,901

Note: A cut-off grade of 2.0 Au g/t was used to derive the mineral resource estimate (updated November 2014)

5. Jerusalem Gold Project

The Company undertook extensive exploration on the Jerusalem Gold Project since it acquired the concession rights in 2003 through to 2007. This work involved surface mapping, trenching and underground mine sampling with the aim of extending known vein systems and locating new veins and mineralized systems. The Company's exploration efforts resulted in extending the strike length of several known veins and locating new veins in previously under-explored areas. No work has been

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undertaken on this project since that time; however, the Company is planning to keep Jerusalem in good standing regarding payment of concession fees.

H) Financial Condition, Liquidity and Capital Resources

As at March 31, 2016 the Company had cash resources of \$0.2 million and a working capital deficit (current assets less current liabilities) of \$13.4 million compared to cash resources of \$0.45 million and a working capital deficit of \$8.7 million as at December 31, 2015.

Included within working capital is a \$0.6 million loan (the "Loan") with a company managed by the Company's Chief Executive Officer and President. The Loan is payable upon demand, is non-interest bearing and is not convertible, exchangeable or repayable into equity or voting securities of the Company. The Loan is secured by the Company's equipment, inventory, accounts receivable and other intangibles. The Loan is included in short term loans as at March 31, 2016.

On June 22, 2015 the Company completed a secured note financing with Vertex Managed Value Portfolio and Vertex Enhanced Income Fund (together, "Vertex") in the aggregate principal amount of \$4 million. On October 30, 2015, the Company and Vertex amended the terms of the financing. Under the amended terms, repayments of principal under the promissory notes issued pursuant to the financing have been deferred by nine months such that principal is now repayable by Dynasty in eight equal monthly installments commencing on July 29, 2016 and ending on February 28, 2017. Additionally, in consideration for the deferral, the expiry date of the 600,000 warrants issued pursuant to the financing has been extended from June 22, 2017 to March 22, 2018. The original exercise price of such warrants has also been amended from \$0.73 to \$0.31 per share. Other terms of the original note purchase agreement remain unchanged. Proceeds from the issuance of the notes have been used to date to fund the continued development of the Zaruma Project including the payment of previously incurred payables related to the Zaruma Project.

As at March 31, 2016 and the date of this report the Company's accounts payable includes some balances which are significantly overdue, including approximately \$3.8 million in aggregate of income taxes, royalties, sales taxes and other withholding taxes owed to the Ecuador Government with which the Company is currently negotiating to defer these amounts. These negotiations are ongoing and there is no assurance they will be successful.

Continuing operations are dependent upon the Company being able to successfully negotiate the deferral of taxation amounts owed to the Ecuador government and the Company's ability in the future to mitigate the risks and overcome the challenges generally associated with comparable development and early stage production enterprises, most significantly, it must either generate sufficient cash flow from the sale of precious metals in the future or secure additional working capital as required, none of which can be assured (see Section R, "Critical Risk Factors" of this MD&A).

More specifically, the operational improvement of the Zaruma Project, the ability to mine the Dynasty Goldfield Project to feed the Zaruma mill, the availability of financing through debt, equity or the profitable sale of assets and the level of funding by potential business partners will determine the Company's working capital requirements over the next 12 months. The Company's ability to continue as a going concern is dependent on its ability to obtain additional funding, the success of which cannot be assured. These conditions and events cast significant doubt on the assumption that the company may continue to be a going concern.

I) Special Committee of the Board

During the first quarter of 2016, Dynasty's Board of Directors established a Special Committee comprised of independent directors to identify, evaluate and consider strategic alternatives available to the Company with a view to enhancing shareholder value.

Strategic alternatives may include, but are not limited to, the sale of the Company, merger or other business combination, recapitalization, sale of all or a portion of the Company's assets, or any combination thereof, or continued execution of its business plan, among all other alternatives. The Special Committee intends to pursue the engagement of a financial advisor to assist it and the Company with this process. There can be no assurance that this explorative process will result in any

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transaction or, if a transaction is undertaken, the terms or timing of such a transaction. See also Section M, "Subsequent Events" of this document.

J) Results of Operations

The table below highlights the results of operations for the three months ended March 31, 2016 and 2015:

	For the Three Months Ended March 31, 2016	For the Three Months Ended March 31, 2015
OPERATING REVENUES	<u>\$ 3,533,292</u>	<u>\$ 3,726,236</u>
OPERATING COSTS		
Mining and processing	4,853,698	5,599,126
Exploration and Evaluation	72,059	-
Royalties	159,996	154,646
Depreciation and depletion	<u>886,324</u>	<u>910,200</u>
	<u>5,972,077</u>	<u>6,663,972</u>
EARNINGS (LOSS) FROM MINE OPERATIONS	(2,438,785)	(2,937,736)
EXPENSES		
Corporate administration	766,585	1,128,842
Stock-based compensation	<u>13,812</u>	<u>17,551</u>
	<u>780,397</u>	<u>1,146,393</u>
LOSS FROM OPERATIONS	(3,219,182)	(4,084,129)
OTHER EXPENSES (INCOME)		
Finance expense	248,705	-
Foreign exchange income	<u>(21,495)</u>	<u>-</u>
	<u>227,210</u>	<u>-</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (3,446,392)	\$ (4,084,129)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.08)	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	46,706,968	42,461,083

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1. Revenue from gold and silver sold

The table below summarizes the Company's revenues and gold and silver sold for the three months ended March 31, 2016 and 2015:

	Three months ended	
	March 31, 2016	March 31, 2015
Revenue	\$ 3,533,292	\$ 3,726,236
Gold Sales		
Gold sales (ounces)	2,785	2,777
Gross proceeds from all gold sales	\$ 3,261,235	\$ 3,428,947
Realized price per ounce	\$ 1,171	\$ 1,235
Silver Sales		
Silver sales (ounces)	14,685	17,235
Gross proceeds from all silver sales	\$ 272,057	\$ 297,289
Realized price per ounce	\$ 18.53	\$ 17.25

2. Operating Costs

The table below summarizes the Company's operating costs for the three months ended March 31, 2016 and 2015:

	March 31, 2016	March 31, 2015
Mining and processing		
Changes in inventories	\$ 552,227	\$ (1,348,781)
Consumables	1,004,472	2,043,165
Equipment maintenance	162,535	720,095
Other mining and processing costs	464,418	632,063
Rentals	408,552	684,360
Utilities	481,864	391,144
Salaries and benefits	1,779,630	2,477,080
Total mining and processing	4,853,698	5,599,126
Exploration and Evaluation	72,059	-
Royalties	159,996	154,646
Depreciation and depletion	886,324	910,200
Total operating costs	\$ 5,972,077	\$ 6,663,972

The Company has implemented cost containment measures which have driven savings in most items above for the three months ended March 31, 2016 when compared to previous quarters.

Salaries and benefits accounted for one of the largest individual direct operating costs. The Company currently has 508 employees which have decreased since March 31, 2016 when there were approximately 523 employees.

Consumables expense relates to the supplies required to carry out mining and plant operations, with the largest expense made

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on items such as drill steels and explosives for mining operations and cyanide and steel balls for the plant operations. The significant portion of the rental expense relates to the cost of transporting material from the mine to the plant since rather than acquiring trucks the Company determined it more economical at this time to contract out this service. The Company also rents other items of equipment such as pumps, generators and compressors when needed.

Contained within the utilities expense is the electrical cost to power the processing plant and mine as well as expenditure on fuel.

The Company maintains all mining equipment in house and currently employs approximately 30 mechanics that carry out maintenance and refurbishment work of the Company's fleet.

A 3% NSR royalty is payable to the government of Ecuador for gold and silver sales from the Zaruma property. In addition a 1.5% NSR royalty is payable to Coeur Mining Inc.

For the three months ended March 31, 2016, amortization of mining equipment totaled \$0.3 million and amortization of the processing plant totaled \$0.3 million compared to amortization of mining equipment of \$0.3 million and amortization of the processing plant of \$0.4 million for the three months ended March 31, 2015. The reduction in depreciation charges is a result of a portion of assets becoming fully depreciated for accounting purposes.

Capitalized mine development costs for the Zaruma mine are being depleted on a units-of-production basis over the total tonnage contained in the measured and indicated resource. This resulted in a charge of \$0.3 million relating to the 19,399 tonnes mined in the three months ended March 31, 2016. The Company has adopted a policy to expense any further development expenditure as it is incurred in respect of a mine property subsequent to the commencement of commercial production, unless substantial new future economic benefits are derived from such expenditure at which point it will be capitalized. No mine development costs were capitalized for the three months ending March 31, 2016.

3. Expenses

The table below summarizes the Company's expenses for the three months ended March 31, 2016 and 2015:

	For the Three Months Ended March 31, 2016	For the Three Months Ended March 31, 2015
Amortization	\$ 29,027	\$ 32,296
Insurance	58,654	88,389
Office and general	155,325	385,348
Other	143,340	190,352
Professional fees	170,093	174,805
Salaries and management fees	<u>210,146</u>	<u>257,652</u>
Total corporate administration	\$ 766,586	\$ 1,128,842

Excluding non-cash-based deductions, corporate administration expenses for the three months ended March 31, 2016 decreased by about \$360,000 which is in line with cost containment measures implemented by Dynasty.

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4. Summary of Quarterly Results

The following is a summary of the Company's quarterly results for each of the eight most recently completed quarters:

	<u>Q1 2016</u>	<u>Q4 2015</u>	<u>Q3 2015</u>	<u>Q2 2015</u>
Revenues	\$ 3,533,292	\$ 6,528,173	\$ 6,343,811	\$ 4,451,297
Net (loss) earnings	\$(3,446,392) ⁽¹⁾	\$ (7,400,847) ⁽²⁾	\$ (1,760,215) ⁽³⁾	\$(3,750,509) ⁽⁴⁾
Basic and Diluted (loss) earnings per share	\$ (0.08)	\$ (0.17)	\$ (0.04)	\$ (0.09)
	<u>Q1 2015</u>	<u>Q4 2014</u>	<u>Q3 2014</u>	<u>Q2 2014</u>
Revenues	\$ 3,726,236	\$10,232,784	\$11,104,445	\$ 5,999,302
Net earnings (loss)	\$(4,084,129) ⁽⁵⁾	\$ (731,772) ⁽⁶⁾	\$ 669,089 ⁽⁷⁾	\$(3,174,239) ⁽⁸⁾
Basic and Diluted earnings (loss) per share	\$ (0.10)	\$ (0.03)	\$ 0.02	\$ (0.09)

(1) The Company's earnings during this period included non-cash deductions of \$13,812 and \$900,068 for stock-based compensation, in connection with the vesting of certain options previously granted and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(2) The Company's earnings during this period included non-cash deductions of \$20,523, \$1,133,291 and \$2,016,418 for stock-based compensation, in connection with the vesting of certain options previously granted, amortization, depletion and accretion, and the impairment of long lived assets, respectively. The value of the options is amortized over the periods in which they vest.

(3) The Company's earnings during this period included non-cash deductions of \$20,672 and \$1,125,411 for stock-based compensation, in connection with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(4) The Company's earnings during this period included non-cash deductions of \$33,538 and \$920,981 for stock-based compensation, in connection with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(5) The Company's earnings during this period included non-cash deductions of \$17,511, \$942,496 for stock-based compensation, in connection with the vesting of certain options previously granted, amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(6) The Company's earnings during this period included non-cash deductions of \$708,235 and \$1,178,040 for stock-based compensation, in connection with the granting of 1,678,000 options and with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(7) The Company's earnings during this period included non-cash deductions of \$37,397 and \$1,207,206 for stock-based compensation, in connection with the granting of 35,000 options and with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(8) The Company's loss during this period included non-cash deductions of \$39,236 and \$1,262,174 for stock-based compensation, in connection with the granting of 35,000 options and with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

K) Capital Expenditures

1. Exploration and Evaluation Properties

Once a license to explore an area has been secured, it is the Company's policy to defer all acquisition, exploration and development costs, including certain field office expenses, until the properties to which they relate are placed into development, sold, abandoned, or have been determined by management to have been impaired in value.

During the three months ended March 31, 2016, the Company spent a total of \$1,067,180 in connection with the exploration

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and maintenance of its mineral properties, compared to \$1,396,338 for the year ended December 31, 2015.

The capitalized exploration and evaluation expenditures relating to the exploration and evaluation of mineral properties (see table, below) were incurred in connection with the Company's Dynasty Copper-Gold Project and related to the payment of annual concession fees for the properties. A description and breakdown of these expenditures is as follows:

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2015	<u>\$ 14,421,227</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 14,421,229</u>
Costs				
Camp supplies and field costs	4,689	-	-	4,689
Geological consulting	51,635	-	-	51,635
Mineral concession rights	967,802	-	-	967,802
Project administration	39,768	-	-	39,768
Travel and related costs	<u>3,286</u>	<u>-</u>	<u>-</u>	<u>3,286</u>
Additions for the period	<u>1,067,180</u>	<u>-</u>	<u>-</u>	<u>1,067,180</u>
Balance, March 31, 2016	<u>\$ 15,488,407</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 15,488,409</u>

As at December 31, 2015 the Company determined that under the guidance of *IFRS 6 "Exploration for and evaluation of mineral properties"* there were indications that the Jerusalem project was impaired and was written down to a nominal value. The indication of impairment under IFRS 6 were principally that, other than renewing the annual concession fees, the Company had no recent or budgeted exploration program for the property. The Company does however currently intend to continue to pay the annual concession fees and hold Jerusalem in its property portfolio.

The Company abandoned several concessions located at the Dynasty Project during the year ended December 31, 2015. These concessions were not significant to the Company's future exploration and development plans. Costs that had been previously capitalized relating to these concessions were written-off.

During the three months ended March 31, 2016 the Company expensed \$72,059 for annual concession fees.

Project administration expenses capitalized as part of Exploration and Evaluation Properties include 25% of amounts (US\$35,000 per month) paid to a company controlled by the Company's President for management services. A further 50% is included in mine properties, plant and equipment costs. The Company's President resides in Ecuador and spends the majority of his time on the development of the Company's mineral properties. The remaining 25% is included in management fees and expensed.

2. Mine Properties, Plant and Equipment

When economically viable projects have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as mines under construction and classified as a component of mine properties, plant and equipment. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized, net of any pre-commercial production revenues.

Once commercial production has been achieved at a project, exploration and development expenditures are amortized on a unit-of-production basis over the measured and indicated resources expected to be extracted economically, and included as part of the production cost.

A description and breakdown of these expenditures is as follows:

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	Zaruma Mines	Plant and Equipment	Land and Buildings	Total
Cost				
Balance as at December 31, 2014	\$ 30,694,365	\$ 33,923,205	\$ 3,292,747	\$ 67,910,317
Additions	-	1,268,006	-	1,268,006
Change in estimate	(847,102)	(1,035,346)	-	(1,882,448)
Balance as at December 31, 2015	29,847,263	34,155,865	3,292,747	67,295,875
Additions	-	57,810	-	57,810
Disposals	-	(5,000)	-	(5,000)
Balance as at March 31, 2016	\$ 29,847,263	\$ 34,208,675	\$ 3,292,747	\$ 67,348,685
Accumulated amortization				
Balance as at December 31, 2014	\$ 1,654,334	\$ 18,963,278	\$ 218,791	\$ 20,836,403
Amortization	1,244,954	2,764,222	31,287	4,040,463
Disposals	-	-	-	-
Balance as at December 31, 2015	2,899,288	21,727,500	250,078	24,876,866
Amortization	247,459	635,525	7,822	890,806
Disposals	-	-	-	-
Balance as at March 31, 2016	\$ 3,146,747	\$ 22,363,024	\$ 257,900	\$ 25,767,672
Net book value				
At December 31, 2015	\$ 26,947,975	\$ 12,428,365	\$ 3,042,669	\$ 42,419,009
At March 31, 2016	\$ 26,700,516	\$ 11,845,650	\$ 3,034,847	\$ 41,581,013

Zaruma mines include all direct costs associated with the acquisition, exploration, evaluation and development of portals to access the Company's resource at its Zaruma Gold Project as well as pre-commercial operating costs, up until the commencement of commercial production on October 1, 2013. It also includes the operating costs of the processing plant from June 30, 2010 to September 30, 2013. During this period, pre-commercial sales from the sale of metals prior to the commencement of commercial production on October 1, 2013 have been credited to mines under construction.

Effective December 31, 2015 the Company changed the estimate of the discount rate to be used when calculating the present value of future reclamation obligations. The discount rate was increased from 4% as at December 31, 2014 to 16% to more accurately reflect the Company's cost of capital. This resulted in a \$1,882,448 decrease in the present value of the future reclamation obligation which was offset with a corresponding decrease in the value of the future reclamation obligation capitalized in Mine Properties, Plant and Equipment.

The Company has adopted the accounting policy to expense all future mine development costs as it is incurred at the Zaruma mines.

L) Related Party Transactions

During the three months ended March 31, 2016, the Company paid management fees of \$105,000 (2015 - \$105,000) to a company managed by the President and Chief Executive Officer of the Company of which \$26,250 (2015 - \$26,250) were capitalized and included in mine properties, plant and equipment and exploration and evaluation properties.

As at March 31, 2016 there was \$173,893 due to (December 31, 2015 - \$221,087) related parties included in accounts payable and accrued liabilities.

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These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

M) Subsequent Events

Subsequent to March 31, 2016, the following relevant events took place:

- a) On April 27, the Company announced that it had entered into a definitive three-year agreement with Green Oil, an Ecuadorean company, to act as contractor for the development of specific mining concession within the Dynasty Golfield project. The contractor will have the right to mine open pitable surface material only and the Company retains the right to explore and develop all underground mineralization. The contractor will be responsible for securing the mineralized material during transport and tracking truck loads to the Zaruma mill. The contractor's compensation will be based on the cash equivalent of 35% of refined gold sales and 10% of refined silver sales. Initial works will begin no later than 15 days following Dynasty's making the requisite reclamation bond payment to the Ecuador Government.
- b) On April 5, the Company announced that its Board of Directors had established a Special Committee comprised of independent directors to identify, evaluate and consider strategic alternatives available to the Company with a view to enhancing shareholder value. As of the date of issuance of these financial statements, the appointment of a financial advisor, to assist the Company with this process, has not been finalized.
- c) On April 1, an unexpected walkout by workers occurred at the Zaruma gold mine which resulted in the suspension of most activities at the mine. As of the date of issuance of these financial statements, the Company is still exploring available options to resume mining activities at Zaruma and is in discussions with workers representatives in cooperation with labour authorities to arrive at an equitable working arrangement for all parties. The Company is exploring other opportunities to increase cash flow to mitigate impact of work stoppage.

N) Ecuador Mining Legislation

On April 18, 2008, Ecuador's Constitutional Assembly passed a Constituent Mandate resolution (the "Mining Mandate"), which provided, among other provisions, for the suspension of mineral exploration activities for 180 days, or until a new Mining Act was approved. The Mining Act was published in late January 2009. The mining regulations to supplement and provide rules which govern the Mining Act were issued in November 2009, after which time the Mining Act and Regulations (collectively, the "Mining Law") were enacted.

The Mining Law was further amended in July 2013 and now distinguishes between large, medium and smaller scale mining operations. The Mining Law provides that operations mining up to 300 tonnes of mined material per day on an individual concession may be categorized as a smaller scale operation and are required to pay a fixed royalty of 3%, operations mining between 301 and 1,000 tonnes of mined material per day on an individual concession may be categorized as a medium scale operation and are required to pay a fixed royalty of 4% and operations mining in excess of 1,000 tonnes of mined material per day on an individual concession are categorized as large scale operations and are required to enter into an exploitation contract with the government which sets out specific terms and conditions of the particular operation, including a royalty between 5% and 8% and the application of a windfall tax.

In 2012, five concessions at the Company's Zaruma Gold Project were qualified as and granted small scale mining licenses. This means that the Company is able to mine up to 300 tonnes per day from each of these concessions, or 1,500 tonnes per day in aggregate, subject to a fixed 3% royalty and no windfall tax. The five concessions for which the Company elected to apply for the small scale operation licenses are the focus of the Company's current mine development plans at the Zaruma Gold Project, being the five concessions currently being accessed by the Company's declines and containing a significant amount of the Company's resource thereat. The Company may apply for additional small or medium scale operation licenses for other concessions at Zaruma in the future based on its mine development plans; however, there can be no assurance that these applications will be successful.

Under the terms of the current Mining Law, the Company expects that other mining assets (being the Jerusalem Project and

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the Dynasty Goldfiled Project) will either qualify, if applied for, to be classified as medium scale mining operations or will be required to enter into exploitation contracts with the Ecuadorian Government if the projects are advanced into the production phase in the future. It is currently not possible to predict the substantive terms and conditions that would be included in such agreements (see Section R, "Critical Risk Factors" of this MD&A).

O) Non-GAAP measures

1. Cash costs per ounce and per tonne

Cash cost per ounce of gold and cash cost per tonne of processed ore are key performance measures that management uses to monitor performance. Management believes that certain investors also use these non-GAAP financial measures to evaluate the Company's performance. Cash costs are an industry standard method of comparing certain costs on a per unit basis, however, they do not have a standardized meaning or method of calculation, even though the descriptions of such measures may be similar. These performance measures have no meaning under IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies.

The following tables present a reconciliation of cash costs per tonne of processed ore and cash costs per ounce of gold to the cost of sales in the consolidated financial statements for the three months ended March 31, 2016, December 31, 2015, September 30, 2015 June 30, 2015 and March 31, 2015:

	Three months ended				
	March 31, 2016	December 31 2015	September 30, 2015	June 30, 2015	March 31, 2015
Operating Expenditures	\$ 5,972,077	\$ 9,320,466	\$ 6,909,315	\$ 7,126,973	\$ 6,663,972
Change in inventory	(552,227)	(1,027,331)	81,595	(201,324)	1,348,781
Depletion and depreciation	(886,324)	(1,109,260)	(1,125,411)	(895,592)	(910,200)
Royalties	(159,996)	(366,226)	(266,072)	(348,452)	(154,646)
By-product credits	(272,057)	(221,680)	(200,795)	(231,057)	(297,289)
Total cash costs	4,101,473	6,595,969	5,398,632	5,450,548	6,650,818
Gold production (ounces)	2,221	4,133	6,285	3,245	4,481
Cash costs (US\$/oz Au)	\$ 1,847	\$ 1,596	\$ 859	\$ 1,680	\$ 1,484
Tonnes milled	19,399	32,167	33,584	17,574	24,344
Cash costs (US\$/tonne Au)	\$ 211	\$ 205	\$ 161	\$ 310	\$ 273

2. All-in sustaining cash costs per ounce and per tonne

The Company believes that "all-in sustaining costs" will better meet the needs of analysts, investors and other stakeholders of the Company in understanding the costs associated with producing gold, the economics of gold mining, assessing our operating performance and also our ability to generate free cash flow from current operations and to generate free cash flow on an overall Company basis.

The Company, in conjunction with an initiative undertaken within the gold mining industry, has adopted an all-in sustaining cost performance measure; however, this performance measure has no standardized meaning.

The Company has conformed its all-in sustaining definition to the measure as set out in the guidance note released by the World Gold Council ("WGC") (a non-regulatory market development organization for the gold industry whose members

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comprise global senior gold mining companies). "All-in sustaining costs" are intended to provide additional information only and do not have standardized definitions under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Although the WGC has published a standardized definition, companies may calculate these measures differently. "All-in sustaining costs" include total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's by-product cash costs. Additionally, the Company includes sustaining capital expenditures, corporate selling, general and administrative expenses, and exploration expenditures in this measure. The Company believes that this measure represents the total costs of producing gold from current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of gold production from current operations, new project capital is not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included. The Company reports this measure on a gold ounces sold basis.

The following tables provide a reconciliation of all-in sustaining costs per ounce to the consolidated financial statements for the three months ended March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015:

	Three months ended				
	March 31, 2016	December 31 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total cash costs	\$ 4,101,473	\$ 6,595,969	\$ 5,398,632	\$ 5,450,548	\$ 6,650,818
Royalties	159,996	366,226	266,072	348,452	154,646
Corporate administration	766,585	1,124,504	941,055	959,445	1,040,288
Capital expenditure	52,810	458,020	368,423	267,845	241,450
Exploration expenditure	341,329	330,520	388,686	338,566	338,566
Total cash costs	5,422,193	8,875,239	7,362,868	7,364,856	8,425,768
Gold production (ounces)	2,221	4,133	6,285	3,245	4,481
All in sustaining cash costs (US\$/oz Au)	\$ 2,441	\$ 2,147	\$ 1,171	\$ 2,269	\$ 1,880

P) Critical Accounting Estimates and Policies

Set out below are the Company's critical accounting policies and estimates:

Revenue recognition

Revenue from the sale of gold and silver is recognized when the quantity of metal sold and the sales price are fixed, title has passed to the buyer and collection is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable.

Earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing the net earnings (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated using all "in the money" options, warrants and equivalents assumed to have been exercised at the beginning of the period and proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Inventory

Gold and silver dore, gold and silver in-process and stockpiled mined material inventories are recorded at the lower of average cost and net realizable value. The cost of finished goods and gold and silver in-process includes direct materials, direct labour, depreciation of mining assets and depreciation of mining and processing plant and equipment. Net realizable value is the estimated selling price less applicable selling expenses.

Materials and supplies inventories are valued at the lower of average cost and net realizable value.

Mineral Properties, Plant and Equipment

Exploration and evaluation properties

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation. Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable project has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mines under construction within mine properties, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

Development properties

When economically viable projects have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as mines under construction and classified as a component of mine properties, plant and equipment. Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major mine components has been reached, operating results are being achieved consistently for a period of time, and there are indicators that these operating results will continue.

Once commercial production has been achieved at a project exploration and development expenditure is amortized on a unit-of-production basis over the measured and indicated resources expected to be extracted economically, and included as part of the production cost.

When further development expenditure is incurred in respect of a mine property subsequent to the commencement of commercial production, such expenditure is capitalized as part of the mine property only when substantial new future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Plant and equipment

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation methods and useful lives are reviewed at each annual reporting date and adjusted as appropriate. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Depreciation is provided using the straight-line method over the following terms:

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Office and exploration equipment	5 years
Vehicles	3 years
Mining equipment	5 years
Drill rigs	5 years
Plant	10 years
Office buildings	20 years

Provision for closure and restoration

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the decommissioning and reclamation of mine properties, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. A liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for reclamation and rehabilitation obligations is estimated using expected cash flows and is discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows.

In subsequent periods, the liability is adjusted for any changes in the amount or timing of the estimated future cash costs and for the accretion of discounted underlying future cash flows. The unwinding of the effect of discounting the provision is recorded as an expense in the profit or loss.

Stock-based compensation

Certain employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of stock options. The cost of these stock options is measured using the estimated fair value at the date of the grant determined using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility. The expected term of options granted is determined based on historical data on the average hold period before exercise, expiry or cancellation. Expected volatility is estimated with reference to the historical volatility of the share price of the Company.

These estimates involve inherent uncertainties and the application of management's judgment. The costs are recognized over the vesting period of the option. The total amount recognized as an expense is adjusted to reflect the number of options expected to vest at each reporting date. The corresponding credit for these costs is recognized in contributed surplus in shareholders' equity.

Stock based compensation arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share based payment transactions and measured at the fair value of goods or services received. If the fair value of the goods or services received cannot be estimated reliably, the share based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Impairment on non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the

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revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years.

Income taxes

The Company recognizes the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted, or substantively enacted, tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. Deferred tax assets are recognized to the extent that recovery is estimated to be probable.

Financial assets

Financial assets, other than derivatives, are designated as available-for-sale, loans and receivables held to maturity or at fair value through profit or loss ("FVTPL"). Financial assets classified as available-for-sale are measured on initial recognition plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for financial assets that are considered to be impaired in which case the loss is recognized in profit or loss. The Company has not classified any assets as available-for-sale for the years presented.

Financial assets classified as held-to-maturity are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Financial assets classified as loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortized cost using the effective interest rate method. The Company's receivables are classified as loans and receivables.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in profit or loss. Transaction costs are expensed for assets classified as FVTPL. The Company's cash is classified as FVTPL.

Financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and short and long term loans are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss. The Company's derivative liability is classified as FVTPL.

Estimates, judgments, risks and uncertainties

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities, revenue and expenses and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates and, as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future period affected.

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The key sources of estimation uncertainty and judgments used in the preparation of these consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and earnings within the next financial year, are discussed below:

Mineral resource estimation

The carrying value and recoverability of mineral properties requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project. The determination of mineral resources also requires the use of estimates. The Company estimates its mineral resources based on information compiled by Qualified Persons as defined in accordance with NI 43-101. There are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation but may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of resources and may result in changes to resource estimates.

Inventories

Management makes estimates of recoverable quantities in stockpiled mined material, in-process material and gold and silver dore to determine the average costs of finished goods sold during the period and the value of inventories in the Company's Statement of Financial Position. Net realizable value tests are performed at each reporting period based on the estimated future sales price of the gold and silver dore, based on the prevailing and long-term gold prices, less estimated costs to complete production and bring the gold and silver dore to selling condition.

The recoverable quantity of mined material in stockpiles is estimated based on tonnage added and removed from the stockpiles, the amount of contained gold ounces based on assay data, and the estimated recovery percentage based on the historical recoveries obtained in the expected processing method. Stockpiled mined material tonnage and estimated grade is reconciled to periodic surveys.

Provision for closure and restoration

In estimating the provision for closure and restoration, the Company makes assumptions about activities that occur many years into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as decommissioning costs and techniques are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at accounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political, and safety requirements.

Units-of-production ("UOP") amortization

The Company uses estimated economical measured and indicated resources as the basis for determining the amortization of certain mineral property and capitalized mine development expenditures. This results in an amortization charge proportional to the anticipated remaining mine life. These calculations require the use of estimates and assumptions, including the amount of measured and indicated resources.

Income Taxes

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.

Stock-based compensation

Stock-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Commencement of commercial production

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Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major mine components has been reached, operating results are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments.

Q) New accounting standards and interpretations

The following new standards and amendments to existing standards were not yet effective as of March 31, 2016, and have not been applied in preparing these consolidated financial statements:

IFRS 15 – Revenue from contracts with customers, is effective for annual periods commencing on or after January 1, 2017. This new standard establishes a new control-based revenue recognition model which could change the timing of revenue recognition. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

IFRS 9 – Financial Instruments, was issued in July 2014 to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. In addition, this new standard amends some of the requirements of IFRS 7, Financial Instruments: Disclosures, including added disclosure about investments in equity instruments measured at fair value in OCI and guidance on financial liabilities and derecognition of financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

IFRS 16 – Leases, was issued in January 2016 with the objective to recognize all leases on the balance sheet. IFRS 16 requires lessees to recognize a “right of use” asset and a lease liability calculated using a prescribed methodology. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. Early adoption is permitted provided that IFRS 15, Revenue from Contracts with Customers, is also adopted. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

R) Critical Risk Factors

The exploration and development of mineral deposits involves certain significant risks not within the control of management. A comprehensive discussion of risk factors included in the Company's Annual Information Form dated March 31, 2016, available on SEDAR at www.sedar.com. Those as well as the following additional risks may impact the business of the Company.

Financial Instruments Risks

Financial assets and liabilities

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.

There were no transfers between Level 1 and 2 or any transfers into or out of Level 3 during the year. Cash and derivative liability are stated at fair value and classified within Level 1. The fair values of receivable and accounts payable and accrued liabilities approximate carrying values because of the short term nature of these instruments.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and receivables. The Company deposits cash with high quality financial institutions as determined by rating agencies in Canada and Treasury Bills issued by the Federal Government of Canada, for which management believes the risk of loss to be minimal. The Company holds minimal balances in banks in Ecuador.

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Receivables mainly consist of employee advances and sales tax refunds from the Federal Governments of Canada and Ecuador. Management believes that the credit risk concentration with respect to receivables is minimal.

Currency Risk

The Company's operations in Canada and Ecuador create exposure to foreign currency fluctuation. Some of the Company's operating expenditures are incurred in Canadian dollars, and the fluctuation of the US dollar in relation to the Canadian dollar will have an impact upon the profitability of the Company and may also affect the value of the Company's financial assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

A portion of the Company's cash, receivables and accounts payable and accruals are denominated in the Canadian dollar and are therefore subject to fluctuation in exchange rates, however these balances are not large enough to expose the Company to significant foreign exchange risk.

Interest Rate Risk

The Company maintains short-term deposits in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. The Company has interest bearing debt and may be subject to interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to Liquidity Risk.

Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold and other commodity prices to determine the appropriate course of action to be taken by the Company.

S) Additional Information

Securities Issued During the Period

During the three months ended March 31, 2016, the Company issued options to purchase 50,000 common shares at CAD\$0.36.

Securities Cancelled During the Period

During the three months ended March 31, 2016, the Company cancelled previously issued options to purchase 127,000 common shares at CAD\$3.63 each upon their expiry.

Subsequent to March 31, 2016 the Company issued no incentive stock options to purchase common shares.

Securities Issued At End Of Period

On March 31, 2016, the Company had 46,706,968 common shares issued and outstanding. There are 46,706,968 common shares issued and outstanding as at the date of this report.

There are outstanding incentive stock options to purchase 5,655,500 common shares of the Company as at the date of this report, as follows:

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Number	Exercise Price	Expiry Date
108,000	\$ 3.32	May 17, 2016
10,000	\$ 2.85	June 27, 2016
31,000	\$ 2.94	July 25, 2016
3,000	\$ 3.00	September 8, 2016
1,227,000	\$ 3.07	December 1, 2016
55,000	\$ 3.00	February 7, 2017
150,000	\$ 4.50	February 23, 2017
45,000	\$ 3.00	September 17, 2017
1,490,000	\$ 0.64	July 16, 2018
623,500	\$ 0.89	January 1, 2019
35,000	\$ 1.48	June 19, 2019
25,000	\$ 1.61	July 28, 2019
1,678,000	\$ 0.92	November 21, 2019
125,000	\$ 0.79	April 8, 2020
<u>50,000</u>	\$ 0.36	March 14, 2021
5,655,500		

Management's Report on Disclosure controls and procedures

Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2016.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Company's internal control over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Directors and Officers

Directors:

Robert Washer
Leonard Clough
Mark Bailey
Brian Speechly
Edison Lopez Viteri

Officers:

Robert Washer - President and Chief Executive Officer
Ruben Gellibert – Chief Financial Officer

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