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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited-prepared by management)
(Expressed in United States dollars, unless otherwise noted)

JUNE 30, 2016

DYNASTY METALS & MINING INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Dynasty Metals & Mining Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

August 30, 2016

DYNASTY METALS & MINING INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
Expressed in United States dollars unless otherwise noted

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015
OPERATING REVENUES	$ 4,190,309	$ 8,177,533	$ 657,017	$ 4,451,297
OPERATING COSTS (Note 4)				
Mining and processing	7,466,392	11,513,925	2,540,635	5,914,799
Royalties	185,396	503,098	25,400	348,452
Depreciation and depletion	1,526,721	1,753,493	640,397	863,722
	9,178,509	13,770,516	3,206,432	7,126,973
LOSS FROM MINE OPERATIONS	**(4,988,200)**	**(5,592,983)**	**(2,549,415)**	**(2,675,676)**
EXPENSES				
Corporate administration (Note 5)	1,452,584	1,948,644	685,999	925,907
Stock-based compensation (Note 13b)	24,105	51,089	13,812	33,538
	1,480,208	1,999,733	699,811	959,445
LOSS FROM OPERATIONS	**(6,468,889)**	**(7,592,716)**	**(3,249,226)**	**(3,635,121)**
OTHER EXPENSES				
Finance expense (Note 6 and 11a)	527,505	73,030	278,800	46,885
Write-down of abandoned properties (Note 9a)	1,321,556	-	1,321,556	-
Foreign exchange loss (gain)	(105,062)	168,982	(87,086)	68,503
	1,743,999	241,922	1,513,270	115,388
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	**$ (8,208,888)**	**$ (7,834,638)**	**$ (4,762,496)**	**$ (3,750,509)**
BASIC AND DILUTED LOSS PER SHARE	$ (0.19)	$ (0.18)	$ (0.11)	$ (0.09)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	46,706,968	42,461,083	46,706,968	42,461,083

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
Expressed in United States dollars unless otherwise noted

As at	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash	$ 27,469	$ 448,278
Receivables	169,796	67,125
Prepaid expenses	1,116,582	984,008
Inventory (Note 7)	2,171,642	3,259,553
	3,485,489	4,758,964
Advances, deposits and warranties	158,514	158,514
Mine properties, plant and equipment (Note 8)	40,895,392	42,419,009
Exploration and evaluation properties (Note 9)	14,225,336	14,421,229
	$ 58,764,731	$ 61,757,716
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	$ 14,361,751	$ 9,338,276
Taxes payable	459,676	528,512
Short term loans (Note 11)	4,767,752	3,627,435
	19,589,179	13,494,223
Derivative Liability (Note 11a)	10,198	24,177
Long term loans (Note 11b)	316,666	1,233,333
Provision for closure and restoration (Note 12)	371,082	343,594
	20,287,125	15,095,327
Shareholders' equity		
Capital stock (Note 13)	90,476,735	90,476,735
Contributed surplus (Note 13)	14,937,930	14,913,825
Deficit	(66,937,059)	(58,728,171)
	38,477,606	46,662,389
	$ 58,764,731	$ 61,757,716

Nature and continuance of operations (Note 1)
Subsequent events (Note 18)

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Expressed in United States dollars unless otherwise noted

	Number of Shares	Capital Stock	Deficit	Contributed Surplus	Total
Balance at December 31, 2015	46,706,968	$ 90,476,735	$ (58,728,171)	$ 14,913,825	$ 46,662,389
Net loss for the period	-	-	(8,208,888)	-	(8,208,888)
Stock-based compensation	-	-	-	24,105	24,105
Balance at June 30, 2016	46,706,968	90,476,735	(66,937,059)	14,937,930	38,477,606
Balance at December 31, 2014	42,461,083	$ 89,059,365	$ (41,732,471)	$ 14,821,581	$ 62,148,475
Net Loss for the period	-	-	(7,834,638)	-	(7,834,638)
Stock-based compensation	-	-	-	51,089	51,089
Share purchase warrants issued	-	-	-	69,035	69,035
Balance at June 30, 2015	42,461,083	89,059,365	(49,567,109)	14,941,705	54,433,961

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in United States dollars unless otherwise noted

		For the Six Months Ended June 30 2016		For the Six Months Ended June 30 2015		For the Three Months Ended June 30 2016		For the Three Months Ended June 30 2015
CASH FLOWS FROM OPERATING ACTIVITIES								
Net loss for the period	$	(8,208,888)	$	(7,834,638)	$	(4,762,496)	$	(3,750,509)
Items not affecting cash:								
Depreciation and depletion		1,850,349		1,863,448		892,763		920,981
Stock-based compensation		24,105		51,089		10,293		33,538
Gain on fair value of derivative liability		(13,979)		-		(1,243)		-
Write off of abandoned properties		1,321,556		-		1,321,556		-
Changes in non-cash working capital items:								
(Increase) decrease in receivables		(102,671)		(33,741)		(27,339)		(38,240)
(Increase) decrease in prepaid expenses		(132,574)		(137,794)		(104,487)		(19,129)
(Increase) decrease in inventory		1,751,050		434,043		603,207		478,303
Increase (decrease) in accounts payable		3,132,494		593,870		1,978,642		(9,476)
Net cash used operating activities		(378,558)		(2,874,522)		(89,104)		(2,384,532)
CASH FLOWS FROM INVESTING ACTIVITIES								
Expenditures on exploration and evaluation properties		(549,260)		(1,060,935)		(394,983)		(111,506)
Expenditures on mine properties, plant and equipment		(16,324)		(488,819)		34,052		(22,767)
Net cash used in investing activities		(565,584)		(1,549,754)		(360,931)		(134,273)
CASH FLOWS FROM FINANCING ACTIVITIES								
Issuance of loans		-		-		-		4,000,000
Advance on sale of concessions		300,000		-		-		-
Advance from contractor		240,000		-		240,000		-
Repayment of short term debt		(16,667)		(132,591)		-		(50,000)
Debt transaction costs		-		-		-		(120,000)
Net cash provided by (used in) financing activities		523,333		(132,591)		240,000		3,830,000
Change in cash for the period		(420,809)		(1,701,315)		(210,035)		1,311,195
Cash, beginning of period		448,278		3,449,944		237,504		437,434
Cash, end of period	$	27,469	$	1,748,629	$	27,469	$	1,748,629
Cash paid during the period for interest	$	54,356	$	20,737	$	-	$	16,487
Cash paid during the period for income taxes	$	68,836	$	109,630	$	-	$	109,630
Cash received during the period for interest	$	-	$	-	$	-	$	-

Supplemental disclosure with respect to cash flows (Note 15)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the laws of the Yukon Territory on June 28, 2000. The Company is in the business of acquiring, exploring, developing and mining mineral concessions. All such concessions are currently situated in Ecuador. The address of the Company's corporate head office and principal place of business is #270 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8.

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 Law was approved. In January 2009, the new Mining Act was published. In November 2009, the regulations and procedures to operate under the new Mining Act were signed by the President of Ecuador and published in the Official Registry, after which time the new Mining Act and Regulations (collectively, the "Mining Law") were enacted. The Mining Law was further amended in July 2013 to distinguish between small, medium and large scale 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 the royalty between 5% and 8% and the application of a windfall tax.

To date, the Company has obtained small scale mining licenses for five concessions at its Zaruma Gold Project. Such licenses permit the Company to mine up to 300 tonnes per day from each concession which has obtained the small scale mining license at a royalty rate of 3%, payable to the Ecuador government, and no windfall tax on the extraction and sale of precious metals. Although these five concessions are the focus of the Company's current mine development plans at its Zaruma Gold Project, there is no assurance that the Company will be able to obtain additional small scale mining licenses for other concessions within the Zaruma Gold Project to the extent they may become necessary based on the Company's development plans in the future.

The Company's other principal projects are expected to fall into either the medium or large scale operation category and may therefore require the Company to enter into exploitation contracts for these projects in the future. There is no assurance that the Company will be able to agree on the terms and conditions an exploitation contract with the government. In the event that an exploitation contract with the government is determined to adversely impact the viability such other projects, it may be necessary, in the future, to re-evaluate the carrying value of the Company's mine exploration and evaluation properties and certain other capital assets.

As at June 30, 2016 the Company's accounts payable includes some balances which are significantly overdue, including approximately $3.4 million in aggregate of income taxes, royalties, IVA and other withholding taxes owed to the Ecuador Government, who the Company is currently negotiating with to defer these amounts. These negotiations are ongoing and there is no assurance they will be successful (See Note 10 (1)).

During the quarter ended June 30, 2016 the Company incurred a loss and comprehensive loss of $4,762,496 and as at June 30, 2016, the Company has a working capital deficit of $16,103,690. Continuing operations are dependent upon the Company's ability to maintain profitable operations and generate sufficient cash flow from the sale of precious metals or secure additional working capital from external sources as required, neither of which is assured. The recoverability of the exploration and evaluation assets is dependent on the existence of economically recoverable reserves and the ability of the Company to obtain necessary financing to initiate and complete development.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will 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.

1. NATURE AND CONTINUANCE OF OPERATIONS (cont'd)

As mentioned above, there are conditions and matters which indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern. In the event the Company is unable to produce sufficient precious metals for sale in the future or secure additional working capital from debt or equity financings or through the profitable sale of capital assets, these consolidated financial statements may require adjustments relating to the recoverability and classification of recorded assets and liabilities.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB ("International Accounting Standards Board") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34- Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company's audited annual financial statements for the year ended December 31, 2015.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of August 30, 2016, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the consolidated financial statements for the period ended June 30, 2016.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company's audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2014.

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 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.

The key sources of estimation uncertainty and judgments used in the preparation of theses 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;

a) ***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 Canadian Securities Administrators National Instrument 43-101, *Standards for Disclosure of Mineral Projects*. There are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation 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.

2. BASIS OF PRESENTATION (cont'd)

b) ***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.

c) ***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.

d) ***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.

e) ***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.

f) ***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.

g) ***Assets' carrying values and impairment charges***

In the determination of carrying values and impairment charges, management looks at the higher of value in use and fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Expressed in United States dollars unless otherwise noted

2. BASIS OF PRESENTATION (cont'd)

The key sources of judgments used in the preparation of theses 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.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

The following standards and amendments to existing standards were not yet effective as of June 30, 2016, and have not been applied in preparing these 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 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 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.

4. OPERATING COSTS

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015
Mining and processing				
Changes in inventories	$ 909,327	$ (1,147,457)	$ 357,100	$ 201,324
Consumables	1,121,601	3,493,814	117,129	1,450,649
Employee participation taxes	-	-	-	-
Equipment maintenance	177,215	1,035,862	14,680	315,767
Other mining and processing costs	818,422	1,186,851	281,945	554,788
Rentals	469,890	1,222,758	61,338	538,398
Utilities	1,013,848	996,842	531,984	605,698
Salaries and benefits	2,956,089	4,725,255	1,176,459	2,248,175
Total mining and processing	7,466,392	11,513,925	2,540,635	5,914,799
Royalties	185,396	503,098	25,400	348,452
Depreciation and depletion	1,526,721	1,753,493	640,397	863,722
Total operating costs	**$ 9,178,509**	**$ 13,770,516**	**$ 3,206,432**	**$ 7,126,973**

Expressed in United States dollars unless otherwise noted

5. CORPORATE ADMINISTRATION

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015
Amortization	$ 55,824	$ 64,166	$ 26,797	$ 31,870
Insurance	108,162	144,725	49,508	56,336
Office and general	370,535	549,919	215,210	264,960
Other	217,226	367,325	73,887	182,689
Professional fees	313,404	303,621	143,311	128,816
Salaries and management fees	387,433	518,888	177,286	261,236
Total corporate administration	**$ 1,452,584**	**$ 1,948,644**	**$ 685,999**	**$ 925,907**

6. FINANCE EXPENSE

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015
Accretion of restoration provision	$ 27,488	$ 40,858	$ 13,744	$ 20,429
Interest and accretion on debt	441,668	20,681	265,056	20,681
Bank charges and other fees	58,349	11,491	-	5,775
Total finance expense	**$ 527,505**	**$ 73,030**	**$ 278,800**	**$ 46,885**

7. INVENTORY

	June 30 2016	December 31 2015
Stockpiled mined material	-	$ 201,043
Gold and silver in-process	34,069	596,433
Gold and silver dore	-	146,226
	34,069	943,702
Materials and supplies	2,137,573	2,315,851
	$ 2,171,642	**$ 3,259,553**

Expressed in United States dollars unless otherwise noted

8. MINE PROPERTIES, PLANT AND EQUIPMENT

Net carrying costs at June 30, 2016 and December 31, 2015 are as follows:

	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 (Note 12)	(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	-	58,925	-	58,925
Disposals	-	-	-	-
Balance as at June 30, 2015	**$ 28,847,263**	**$ 34,214,790**	**$ 3,292,747**	**$ 67,354,800**
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	296,236	1,270,663	15,644	1,582,542
Disposals	-	-	-	-
Balance as at June 30, 2015	**$ 3,195,524**	**$ 22,998,162**	**$ 265,722**	**$ 26,459,408**
Net book value				
At December 31, 2015	$ 26,947,975	$ 12,428,365	$ 3,042,669	$ 42,419,009
At June 30, 2016	**$ 26,651,739**	**$ 11,216,627**	**$ 3,027,025**	**$ 40,895,392**

Zaruma Gold Project

The Zaruma Gold Project comprises 46 concessions, located in the El Oro Province of southwestern Ecuador, in the vicinity of the towns of Zaruma and Portovelo. As at June 30, 2016, 43 of the concessions are 100% owned, one is 50% owned and one is 25% owned and subject to a concession sharing arrangement. The Company has title to the remaining concession and has paid the majority of applicable option payments on this concession.

Two of the concessions are subject to a 1% Net Smelter Return ("NSR") royalty payable to a company managed by a director, three concessions are subject to a 2% NSR royalty and 39 are subject to a 1.5% NSR royalty. The Company has no work obligations with respect to the project concessions.

The Company is aware of actions taken by other parties to secure ownership of a concession within the Zaruma Gold Project and access certain other concessions. The Company believes that these actions are unlawful and has taken steps to protect its interest.

In March of 2016, the Company entered into an agreement for the sale of two non-resource mining concessions that were part of the Zaruma Project for a total of $600,000 of which, $300,000 was paid to the Company as an advance. As of the date of issuance of these financial statements, the relevant agreement was completed and approved by the Ministry of Mines. Remaining resources were received in July and August and used for working capital purposes as well as payment of outstanding indebtedness to the Government of Ecuador and suppliers.

Expressed in United States dollars unless otherwise noted

8. MINE PROPERTIES, PLANT AND EQUIPMENT (cont'd)

Zaruma Gold Project (cont'd)

On June 14, 2016 the Company announced that it reached an agreement with workers in order to partially finance payment of their outstanding wages at the Zaruma Project. Under this agreement workers were permitted to extract ore from the Zaruma mine for a 10 day period. The material extracted was processed at third party mills in Ecuador at the workers' risk and cost. See also Note 18a.

9. EXPLORATION AND EVALUATION PROPERTIES

Title to exploration and evaluation properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, titles to all of its properties, except as described below, are properly registered and in good standing.

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2014	$ 13,519,430	$ 1,807,439	$ 170,169	$ 15,497,038
Costs				
Camp supplies and field costs	11,045	-	-	11,045
Geological consulting	250,324	5,250	-	255,574
Mineral concession rights	913,109	5,974	-	919,083
Project administration	107,663	27,588	-	135,251
Travel and related costs	75,385	-	-	75,385
Additions for the year	1,357,526	38,812	-	1,396,338
Impairment of long lived asset	-	(1,846,250)	(170,168)	(2,016,418)
Write-down, Abandoned properties	(455,729)	-	-	(455,729)
Balance, December 31, 2015	$ 14,421,227	$ 1	$ 1	$ 14,421,229

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2015	$ 14,421,227	$ 1	$ 1	$ 14,421,229
Costs				
Camp supplies and field costs	4,768	-	-	4,768
Geological consulting	104,209	-	-	104,209
Mineral concession rights	949,932	-	-	949,932
Project administration	55,299	-	-	55,299
Travel and related costs	11,455	-	-	11,455
Additions for the period	1,125,663	-	-	1,125,663
Write-down, Abandoned properties	(1,321,556)	-	-	(1,321,556)
Balance, June 30, 2016	$ 14,225,334	$ 1	$ 1	$ 14,225,336

9. EXPLORATION AND EVALUATION PROPERTIES (cont'd)

a) Dynasty Project

The Dynasty Project, also known as the Dynasty Copper-Gold Belt consists of 38 100% owned concessions.

Five of the project concessions are subject to a 1% NSR royalty, payable to a company managed be a director. The Company has no work obligations with respect to the project property.

On April 27, 2016, the Company announced that it entered into a definitive three-year agreement with Green Oil S.A., 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 which as of the date of issuance of these financial statements is still pending. As part of the agreement, Green Oil S.A. provided the Company with advanced resources for a total of $240,000 which was used for working capital purposes as well as payment of outstanding indebtedness to the Ecuadorean Government and suppliers.

The Company abandoned several concessions located at the Dynasty Project as of December 31, 2015 and June 30, 2016. These concessions were not significant to the Company's future exploration and development plans. Costs that had been previously capitalized relating to these concessions amounting to $455,729 and $1,321,556 were written-off during fiscals 2015 and 2016, respectively.

b) Jerusalem Project

The Jerusalem Project consists of one, 100% owned concession.

The project is subject to 1% NSR royalty, payable to a company managed by a director. The Company has no work obligations with respect to the project property.

During fiscal 2012 a group of informal miners set up camps and conducted illegal mining operations at the Jerusalem property. To the best of the Company's knowledge any illegal mining that has occurred to date has been near surface and has not had a material effect on the Company's resources. The Company has lodged petitions with the appropriate government authorities to remove the informal miners and dismantle their operations; however, as at the date hereof no action has been taken by such authorities.

Illegal mining is widespread in Ecuador. Illegal miners have and may continue to trespass on our properties and may engage in dangerous practices. The Company is unable to continuously monitor the full extent of our exploration and operating properties. The presence of illegal miners could also lead to project delays and disputes regarding the development or operation of our precious metals deposits. Although the Company has and will continue to take all necessary and available steps to remove such miners and cease their illegal activities, there is no assurance that such steps will be successful and the Illegal activities of these miners could cause environmental damage or other damage to our properties or personal injury or death, for which the Company could potentially be held responsible, all of which could have an adverse impact on future results of operations and financial condition.

In fiscal 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.

Expressed in United States dollars unless otherwise noted

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 31 2016	December 31 2015
Suppliers	$ 5,501,436	$ 4,637,078
Employee-Related accruals	2,914,346	1,438,358
Employee-Related retirement contributions (1)	1,110,670	727,903
Concession fees (1)	559,000	-
Value Added Tax (1)	920,000	920,000
Withheld Taxes (1)	150,000	150,000
Royalties (1)	445,974	510,194
Other royalties	339,499	285,848
Advances on sale of concessions (see Notes 8)	300,000	-
Advances from contractors (see Note 9a)	240,000	-
Related parties (see Note 14)	816,123	148,031
Interest payable on Promissory Notes (see Note 11a)	263,584	-
Contributions to Regulatory Agency (1)	85,474	85,474
Remittance tax (1)	94,789	94,789
Other	620,856	340,601
(1)	**$ 14,361,751**	**$ 9,338,276**

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(1) Payable to the Ecuadorean Government

11. SHORT AND LONG TERM LOANS

	Promissory Notes	Equipment Loan	Related Party Loan	Total
Short term loans, December 31, 2014	$ -	$ -	$ 1,000,000	$ 1,000,000
Increase in principal borrowed	4,000,000	600,000	1,000,000	5,600,000
Repayment of principal, cash and shares	-	(166,667)	(1,439,500)	(1,606,167)
Less:				
- Unamortised transaction costs	(133,065)	-	-	(133,065)
- Long term portion	(1,000,000)	(233,333)	-	(1,233,333)
Short term loans, December 31, 2015	$ 2,866,935	$ 200,000	$ 560,500	$ 3,627,435

	Promissory Notes	Equipment Loan	Related Party Loan	Total
Short term loans, December 31, 2015	$ 2,866,935	$ 200,000	$ 560,500	$ 3,627,435
Reclassification from Long Term	1,237,638	416,667	-	1,654,304
Repayment of principal	-	(16,667)	-	(16,667)
Less:				
- Unamortised transaction costs	(180,655)	-	-	(180,655)
- Long term portion	-	(316,667)	-	(316,667)
Short term loans, June 30, 2016	$ 3,923,918	$ 283,333	$ 560,500	$ 4,767,752

11. SHORT AND LONG TERM LOANS (Cont'd)

a) Promissory Notes (see also Note 18c)
On June 22, 2015 the Company entered into a note purchase agreement with Vertex Managed Value Portfolio and Vertex Enhanced Income Fund (together, "Vertex"), for the issuance of promissory notes (the "Notes") to Vertex in the aggregate principal amount of $4,000,000 maturing on May 31, 2016.

The Notes accrue interest at a rate of 16% per annum, payable monthly, which at the Company's election may be capitalized and added to the principal amount. Principal is repayable in eight monthly installments commencing on October 30, 2015, subject to the Company's right to prepay the Notes at any time after November 30, 2015, without penalty. The Notes are secured by a pledge of the shares of the Company's indirect wholly-owned subsidiary, Elipe S.A., which holds certain of the Company's mining concessions in Ecuador.

In connection with the financing, Vertex was paid a cash fee in an amount equal to 3% of the aggregate principal amount of the Notes ($120,000), and received 600,000 common share purchase warrants ("Warrant"). Each Warrant entitles the holder thereof, for a period of 24 months, to acquire one common share of the Company at a price equal to CAD$0.73, subject to the certain terms and conditions. The warrants were valued at $69,035, and recorded as a Derivative Liability, using the Black Scholes pricing model assuming a risk-free interest rate of 0.7%, expected life of 1.0 years and an annualized volatility of 48.73%.

On October 30, 2015, the Company and Vertex amended the terms of the Notes. 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 the Company 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 has been extended from June 22, 2017 to March 22, 2018. The original exercise price of the Warrants has also been amended from CAD$0.73 to CAD$0.31 per share. Other terms of the original Note Agreement remain unchanged.

As a result of amending the warrants, additional transaction costs of $35,142 were recognized as a Derivative Liability using the Black Scholes pricing model assuming a risk-free rate of 0.57%, expected life of 2.4 years and an annualized volatility of 60.29%. The change in terms did not constitute a substantial modification and accordingly the notes were not considered extinguished.

On June 30, 2016 the Company revalued the warrants using the Black Scholes pricing model assuming a risk-free rate of 0.5%, expected life of 1.7 years and an annualized volatility of 68.42%. The resulting revaluation of $10,198 led to a loss on the valuation of the fair value liability of $1,243

b) Equipment Loan
The Company entered into a loan with Atlas Copco Finance to finance the purchase of Atlas Copco machinery in the aggregate amount of $600,000. The loan is repayable monthly over three years, bears interest at 8.5% and is secured by the Atlas Copco equipment purchased.

c) Related Party Loan (see also Note 14)
The Company previously entered into an interest free promissory note with a principal amount of $2,000,000 with corporations represented by the Company's President and Chief Executive Officer.

On September 5, 2015 the Company settled $1,439,500 of the promissory notes owed by issuance of 4,245,885 of the Company's common shares valued at $1,439,500.

The remaining principal amount of the notes, on aggregate, is $560,500 which is non-interest bearing and repayable on demand. The promissory notes are secured by way of a General Security Agreement over certain assets of the Company

12. PROVISION FOR CLOSURE AND RESTORATION

The Company's environmental permit at the Zaruma Gold Project requires that it reclaim any land it disturbs during the mine and plant construction and operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to June 30, 2015 to be $371,082 (2015 - $343,594). The present value of the future reclamation obligation assumes an inflation rate of 2.5% and a discount rate of 4.0%, an undiscounted amount to settle the obligation of $1,915,501 and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

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.

	June 30 2016	December 31 2015
Balance, beginning of period	$ 343,594	$ 2,046,799
Liabilities incurred in the period	-	97,527
Accretion expense	27,488	81,716
Change in estimate	-	(1,882,448)
Balance, end of period	$ 371,082	$ 343,594

13. CAPITAL STOCK AND CONTRIBUTED SURPLUS

a) Authorized and issued shares

At June 30, 2016, the Company had an unlimited number of authorized common shares and 46,706,968 shares outstanding (2015 – 46,706,968). All per share amounts below are in Canadian dollars (CAD) which, at June 30, 2016, is equivalent to 0.7509 US dollars.

b) Stock options and warrants

The Company has an incentive stock option plan, pursuant to which its Board of Directors grants stock options, from time to time, to directors, officers, employees and certain consultants. The exercise price of each option is no less than the market price of the Company's common shares at the date of grant. The options can be granted for a maximum term of 10 years. The Company's Board of Directors determines the vesting requirements for options granted. The Company received shareholder approval at its 2013 Annual General Meeting to grant a maximum of 8,492,216 options.

The Company uses a fair value method of accounting for all stock-based payments. Under this method, the Company recorded a stock-based compensation expense of $13,812 and $24,105 for the three and six months ended June 30, 2016, respectively ($51,089 and $33,538 for the six and three months ended June 30, 2015, respectively) with a corresponding credit to contributed surplus. The fair value of the stock options is estimated as at the date of the grant using the Black-Scholes pricing model assuming the following weighted average assumptions:

Expressed in United States dollars unless otherwise noted

13. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

	2016	2015
Risk-free interest rate	0.66%	1.20%
Expected life	3.85 years	3.55 years
Annualized volatility	69.01%	60.57%
Pre-vest forfeiture rate	10.00%	10.00%
Dividend rate	0.00%	0.00%

During the six months ended June 30, 2016, the Company granted 50,000 options (2015 – nil) with a fair value of $5,669 (2015 - nil), which is being recognized over the vesting periods of the options.

The continuity of incentive stock options issued and outstanding is as follows:

	Stock options	
	Number	**Weighted Average Exercise Price (CAD$)**
Balance, December 31, 2014	5,727,800	$ 1.64
Granted	125,000	0.79
Expired	(120,300)	4.70
Balance, December 31, 2015	5,732,500	1.56
Granted	50,000	0.36
Expired	(245,000)	3.46
Balance, June 30, 2016	5,537,500	$ 1.46

The following stock options were outstanding as at June 30, 2016:

	Options outstanding			**Options exercisable**	
Exercise price range	**Number of stock options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (CAD$)**	**Number of stock options exercisable**	**Weighted average exercise price (CAD$)**
$0.36 - $0.72	1,540,000	2.13	0.64	1,500,000	0.64
$0.73 - $0.91	748,500	2.71	0.87	550,958	0.87
$0.92 - $1.20	1,678,000	3.39	0.92	1,678,000	0.92
$1.21 - $3.04	194,000	1.40	2.54	172,750	2.66
$3.05 - $4.50	1,377,000	0.45	3.23	1,377,000	3.23
	5,537,500	2.15	1.46	5,278,708	1.49

13. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

During the six months ended June 30, 2016, no options were exercised (2015 – nil). The weighted average fair value per stock option granted during the six months ended June 30, 2016 was $0.11 per option. As at June 30, 2016, the non-vested stock-based compensation expense not yet recognized was $20,410 which is to be recognized over the next 11.2 months.

During the year ended December 31, 2015 the Company granted 600,000 share purchase warrants with an exercise price of CAD$0.73 per warrant, expiring on June 22, 2017. In conjunction with the amendment to the term of the Promissory Notes held with Vertex on October 30, 2015 the expiry date of the 600,000 Warrants has been extended to March 22, 2018. The original exercise price of the Warrants has also been amended from CAD$0.73 to CAD$0.31 per share (see Note 11a).

14. RELATED PARTY TRANSACTIONS (see also Note 11c)

During the six months ended June 30, 2016, the Company paid or accrued management fees of $210,000 (2015 - $210,000) in favor of a company managed by the President and Chief Executive Officer of the Company of which $16,800 (2015 - $16,800) were capitalized and included in mine properties, plant and equipment and exploration and evaluation properties. As at June 30, 2016 there was $267,893 (December 31, 2015 - $122,820) included in accounts payable and accrued liabilities of outstanding management fees.

Also, as at June 30, 2016 there was a total of $548,231 (December 31, 2015 - $25,210) included in accounts payable and accrued liabilities for funding provided by a company managed by the President and Chief Executive Officer of the Company. As of the date of issuance of these financial statements, no additional funding has been provided, and also, from the above mentioned June 30, 2016 figure, a total of $35,471 has been reversed.

Related party 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.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) During the six months ended June 30, 2016, the Company acquired inventory at a cost of $2,897,902 and incurred capital expenditures of $209,771 through accounts payable.

b) During the six months ended June 30, 2015, the Company acquired inventory at a cost of $2,384,683 and incurred capital expenditures of $185,829 through accounts payable. In addition, the Company granted 600,000 warrants on loans payable valued at $69,035.

16. CAPITAL DISCLOSURE

The Company's capital currently consists of common shares, options and warrants. As the Company is in the early stage production phase for the six months ended June 30, 2016 its principal source of funds is currently from the production and sale of precious metals and it is not subject to any externally imposed capital restrictions. The Company's capital management objectives are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to have sufficient capital to be able to meet the Company's property development and exploration plans. These objectives have not changed during the six months ended June 30, 2016.

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17. FINANCIAL INSTRUMENTS

a) 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 period. Cash is stated at fair value and classified within Level 1 and the derivative liability is stated at fair value and classified within Level 2. The fair values of receivable, accounts payable and accrued liabilities and short term loans approximate carrying values because of the short term nature of these instruments. Long term loans are carried at amortized cost.

b) 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, for which management believes the risk of loss to be minimal. The Company holds minimal balances in banks in Ecuador.

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.

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.

c) 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.

d) 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.

17. FINANCIAL INSTRUMENTS (cont'd)

e) 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.

18. SUBSEQUENT EVENTS

Subsequent to June 30, 2016, the following relevant events took place:

a) On August 23, 2016, the Company announced the results of an agreement reached with workers in June 2016 (see also Note 8) which allowed them to extract ore for a 10 day period. Approximately 2,000 tonnes of ore at a grade of 3.35 g/t Au were mined and processed which resulted in 215 ounces of gold that were sold for proceeds (net of processing costs) of $192,341 which contributed to the outstanding wages for the Zaruma miners.

b) On August 16, 2016, the Company announced that it entered into a binding letter of intent with some investors who agreed to purchase from the Company (and the Company agreed to issue to the investors), on a private placement basis, $4,000,000 worth of shares at an issuance price of CAD$0.15 per share. Allocation of shares among investors and translation of amounts into CAD$ will be set forth in the definitive agreement. The Company plans to use proceeds from the private placement to settle certain amounts payable to the Ecuadorean Government, creditors and employees and to provide additional working capital necessary to advance mining projects. As of the date of issuance of this MD&A, the Private Placement has not taken place yet. Section 604 (a)(i) of the TSX Company Manual requires the Private Placement to be approved by the Company's shareholders on the basis that completion of the Private Placement will materially affect control of the Company. However, the Company has applied to the TSX, pursuant to the provisions of Section 604(e) of the Manual, for a "financial hardship" exemption from the requirements to obtain shareholder approval, on the basis that the Company is in serious financial difficulty and that the Private Placement and the shares for debt settlement are designed to improve the Company's financial situation. The application was made upon the recommendations of the Special Committee of the board of directors of the Company, free from any interest in the transactions and unrelated to the parties involved in the transactions, and was based on their determination that the transactions are reasonable for the Company in the circumstances. The Company expects that, as a consequence of its financial hardship application, the TSX will place Dynasty under remedial delisting review, which is normal practice when a listed issuer seeks to rely on this exemption. Although the Company believes that it will be in compliance with all continued listing requirements of the TSX upon conclusion of the delisting review, no assurance can be provided as to the outcome of such review and therefore, continued qualification for listing on the TSX.

c) On July 28, 2016, the Company announced that Vertex (see also Note 11a) agreed to forbear from enforcement of the Promissory Notes, purchased in June 2015, for a period of 30 days to allow the Company to assess the various liquidity offers that had been presented.

d) On July 21, 2016, the Company announced that it reached an agreement with workers at the Zaruma mine. Under the terms of the agreement, the workers are entitled to 20% of all material processed with the remaining 80% to be property of the Company. Transportation and milling costs will be also divided proportionally. All material is to be processed at the Zaruma processing plant. The Agreement also states that once the current outstanding wage obligation has been satisfied, the Company will be entitled to 100% of the material processed.