

**DYNASTY METALS AND MINING INC.**  
Suite 1502 – 1166 Alberni Street  
Vancouver, British Columbia V6E 3Z3  
Canada

**NOTICE**

**RE: CONDENSED CONSOLIDATED INTERIM FINANCIALS STATEMENTS FOR  
THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED)**

The first quarter financial statements for the three months ended March 31, 2017 and 2016 have not been reviewed by the auditors of Dynasty Metals and Mining Inc.

**DYNASTY METALS AND MINING INC.**

*“Sam Wong”*

**SAM WONG**

Chief Financial Officer



## **Dynasty Metals & Mining Inc.**

Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2017 and 2016 (unaudited)

(amount expressed in United States dollars, except where indicated)

# Dynasty Metals & Mining Inc.

## Condensed Consolidated Interim Statements of Financial Position

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|  | Note  | March 31,<br>2017 | December 31,<br>2016 |
|--|-------|-------------------|----------------------|
| <b>Assets</b>  |       |                   |                      |
| <b>Current assets</b>                                    |       |                   |                      |
| Cash   | 5     | \$ 37             | \$ 20                |
| Receivables and prepaid expenses                         | 4,5   | 128               | 846                  |
| Inventory  |       | 1,404             | 1,574                |
|  |       | 1,569             | 2,440                |
| Other long term assets                                   |       | 232               | 205                  |
| Properties, plant and equipment                          | 6     | 32,742            | 19,873               |
| Exploration and evaluation properties                    | 7     | -                 | 15,303               |
| Total assets   |       | \$ 34,543         | \$ 37,821            |
| <b>Liabilities</b>                                       |       |                   |                      |
| <b>Current liabilities</b>                               |       |                   |                      |
| Accounts payable and accrued liabilities                 | 5,8   | \$ 14,779         | \$ 14,786            |
| Advance – Credipresto SA de CV SOFOM ENR (“Credipresto”) | 20(a) | 500               | 923                  |
| Loan payable – current portion                           | 9     | 2,461             | 2,461                |
|  |       | 17,740            | 18,170               |
| Loan payable   | 9     | 1,500             | 1,500                |
| Convertible debenture                                    | 10    | 1,884             | 958                  |
| Derivative warrant liability                             | 11    | 789               | 324                  |
| Provision for closure and restoration                    |       | 408               | 391                  |
| Total liabilities  |       | 22,321            | 21,343               |
| <b>Shareholders' equity</b>                              |       |                   |                      |
| Share capital  | 12    | 94,920            | 94,920               |
| Reserves   | 12    | 15,323            | 15,133               |
| Deficit  |       | (98,021)          | (93,575)             |
| Total shareholders' equity                               |       | 12,222            | 16,478               |
| Total liabilities and shareholders' equity               |       | \$ 34,543         | \$ 37,821            |

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

*Commitment and contingencies (note 19)*

*Subsequent events (note 20)*

### Approved by the Board of Directors

\_\_\_\_\_  
"Keith Piggott" Director

\_\_\_\_\_  
"Javier Reyes" Director

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

# Dynasty Metals & Mining Inc.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|  | Note | Three Months Ended |                |
|--|------|--------------------|----------------|
|  |      | March 31, 2017     | March 31, 2016 |
| <b>Operating Revenue</b>   |      | \$ 1,010           | \$ 3,533       |
| <b>Operating Costs</b>   |      |                    |                |
| Cost of sales  | 13   | (2,370)            | (5,086)        |
| Depreciation and depletion   | 6    | (701)              | (886)          |
|  |      | (2,061)            | (2,439)        |
| <b>Expenses</b>  |      |                    |                |
| Depreciation – corporate   | 6    | -                  | (29)           |
| General and administration   |      | (188)              | (299)          |
| Insurance  |      | (38)               | (59)           |
| Salaries and management fees   |      | (228)              | (209)          |
| Professional fees  |      | (276)              | (170)          |
| Stock-based compensation   | 12   | (141)              | (14)           |
|  |      | (2,932)            | (3,219)        |
| Finance expense  | 14   | (185)              | (239)          |
| Loss in derivative liability - warrants                                | 11   | (465)              | 12             |
| Impairment – exploration properties                                    | 7    | (933)              | -              |
| Other expense  |      | 50                 | -              |
| Foreign exchange gain  |      | 19                 | -              |
| <b>Net loss and comprehensive loss for the year</b>                    |      | (4,446)            | (3,446)        |
| <b>Loss per share – basic and diluted</b>                              |      | \$ (0.05)          | \$ (0.08)      |
| <b>Weighted average shares outstanding (000's) – basic and diluted</b> |      | 87,829             | 46,707         |
| <b>Total shares issued and outstanding (000's)</b>                     |      | 87,829             | 46,707         |

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

**Dynasty Metals & Mining Inc.****Condensed Consolidated Interim Statement of Changes in Shareholders' Equity**

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|  | Notes | Number of Shares ('000) | Share Capital | Reserves  | Convertible Debenture Reserve | Deficit     | Total Equity |
|--|-------|-------------------------|---------------|-----------|-------------------------------|-------------|--------------|
| <b>Balance at December 31, 2016</b>    |       | 87,829                  | \$ 94,920     | \$ 15,086 | \$ 47                         | \$ (93,575) | \$ 16,478    |
| Net loss for the period                |       | -                       | -             | -         | -                             | (4,446)     | (4,446)      |
| Equity portion – convertible debenture | 10    | -                       | -             | -         | 49                            | -           | 49           |
| Share-based compensation charges       | 12    | -                       | -             | 141       | -                             | -           | 141          |
| <b>Balance at March 31, 2017</b>       |       | 87,829                  | \$ 94,920     | \$ 15,227 | \$ 96                         | \$ (98,021) | \$ 12,222    |
| <b>Balance at December 31, 2015</b>    |       | 46,707                  | \$ 90,477     | \$ 14,913 | \$ -                          | \$ (58,727) | \$ 46,663    |
| Net loss for the period                |       | -                       | -             | -         | -                             | (3,446)     | (3,446)      |
| Share-based compensation charges       | 12    | -                       | -             | 14        | -                             | -           | 14           |
| <b>Balance at March 31, 2016</b>       |       | 46,707                  | \$ 90,477     | \$ 14,927 | \$ -                          | \$ (62,173) | \$ 43,231    |

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

# Dynasty Metals & Mining Inc.

## Condensed Consolidated Interim Statement of Cash Flow

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|   | Notes | Three Months Ended |                |
|---|-------|--------------------|----------------|
|   |       | March 31, 2017     | March 31, 2016 |
| <b>Cash flows from operating activities</b>   |       |                    |                |
| Net loss for the year   |       | \$ (4,446)         | \$ (3,446)     |
| Items not affecting cash  |       |                    |                |
| Depreciation and depletion  |       | 701                | 957            |
| Share-based compensation  |       | 141                | 14             |
| Loss (gain) on fair value of derivative liability                                       |       | 465                | (12)           |
| Impairment – exploration and evaluation properties                                      |       | 933                | -              |
| Finance cost – convertible debenture accretion  |       | 13                 | -              |
| Finance cost – accretion on asset retirement obligation                                 |       | 17                 | 14             |
| Other income  |       | (53)               | (14)           |
| Change in non-cash operating working capital  |       |                    |                |
| Decrease (increase) in accounts receivable, prepaid expenses and other long term assets |       | 791                | (103)          |
| Increase in accounts payables   |       | 459                | 1,147          |
| Decrease in inventory   |       | 169                | 1,153          |
| <b>Net cash flow (outflow) in operating activities</b>                                  |       | <b>(810)</b>       | <b>(290)</b>   |
| <b>Cash flows from investing activities</b>   |       |                    |                |
| Expenditure - exploration and evaluation properties                                     |       | -                  | (154)          |
| Expenditure - properties, plant and equipment   |       | -                  | (50)           |
| Proceeds from sales or leasing of mineral concessions                                   |       | 250                | 300            |
| <b>Net cash used in investing activities</b>  |       | <b>250</b>         | <b>96</b>      |
| <b>Cash flows from financing activities</b>   |       |                    |                |
| Proceeds from issuance of convertible debenture   |       | 77                 | -              |
| Advance – convertible debenture   |       | 500                | -              |
| Repayment of loan payable   |       | -                  | (16)           |
| <b>Net cash provided by (used in) financing activities</b>                              |       | <b>577</b>         | <b>(16)</b>    |
| <b>Increase (decrease) in cash</b>  |       | <b>17</b>          | <b>(210)</b>   |
| <b>Cash– beginning of period</b>  |       | <b>20</b>          | <b>448</b>     |
| <b>Cash– end of period</b>  |       | <b>\$ 37</b>       | <b>\$ 238</b>  |
| <b>Supplemental cash flow information (note 16)</b>                                     |       |                    |                |

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

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

---

### 1 Nature of operations and going concern

#### *Nature of Operations*

Dynasty Metals & Mining Inc. (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 Suite 1502 – 1166 Alberni Street, Vancouver, British Columbia, Canada, V6E 3Z3.

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 and three concessions on the Dynasty 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 concessions are the focus of the Company’s mine development plans, there is no assurance that the Company will be able to obtain additional small scale mining licenses for other concessions 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.

#### *Going Concern*

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. As mentioned below, 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.

As at March 31, 2017 the Company’s accounts payable includes some balances which are significantly overdue, including income taxes, royalties, IVA and other withholding taxes owed to the Ecuador Government, who have seized the Company’s bank accounts in order to garnish deposits to pay down the payables. The Company is currently negotiating to defer these amounts. These negotiations are ongoing and there is no assurance they will be successful. During three month ended March 31, 2017, the Company incurred net loss of \$4,446 (2016 - \$3,446) and as at March 31, 2017, the Company has a working capital deficit of \$16,171 (December 31, 2016 - \$15,730). 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.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

---

### 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretation Committee (“IFRIC”). The accounting policies, methods of computation and presentation applied in these consolidated financial statements are consistent with those of previous financial year. These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured a fair value. The Board of Directors has approved the audited consolidated financial statements on May 15, 2017.

#### *New Accounting Standards Issued but Not Yet Effective*

The following standards and amendments to existing standards were not yet effective as of March 31, 2017, 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 de-recognition 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.

### 3 Estimates, 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 amounts 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 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:

#### *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.



# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

---

### *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) Asset's 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.

### *h) Warrant valuation*

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. The option pricing model requires the input of highly speculative assumptions, including the expected future price volatility of a Company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

## Dynasty Metals & Mining Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

#### 4 Receivables and prepaid expenses

|                         | March 31, 2017 | December 31, 2016 |
|-------------------------|----------------|-------------------|
| <b>Receivables</b>      | \$ 103         | \$ 23             |
| <b>Prepaid expenses</b> |                |                   |
| Prepaid – taxes         | -              | 358               |
| Prepaid – other         | 25             | 223               |
| Advances – employees    | -              | 50                |
| Advances – suppliers    | -              | 192               |
|                         | \$ 128         | \$ 846            |

#### 5 Financial instruments

##### Fair values of financial instruments

The fair values of financial instruments are summarized as follows:

|   | Fair Value Hierarchy Level | March 31, 2017 | December 31, 2016 |
|---|----------------------------|----------------|-------------------|
| <b>Financial assets</b>                               |                            |                |                   |
| <i>Receivables</i>                                    |                            |                |                   |
| Cash <sup>(1)</sup>                                   | N/A                        | \$ 37          | \$ 20             |
| Receivables <sup>(1)</sup>                            | N/A                        | 103            | 23                |
| <b>Financial liabilities</b>                          |                            |                |                   |
| <i>Other financial liabilities</i>                    |                            |                |                   |
| Accounts payable & accrued liabilities <sup>(1)</sup> | N/A                        | 14,779         | 14,786            |
| Advance - Credipresto <sup>(3)</sup>                  | N/A                        | 500            | 923               |
| Related party loan <sup>(3)</sup>                     | N/A                        | 545            | 545               |
| Loan payable <sup>(3)</sup>                           | N/A                        | 3,416          | 3,416             |
| <i>Derivative</i>                                     |                            |                |                   |
| Warrant liability <sup>(2)</sup>                      | Level 3                    | 789            | 324               |

(1) The carrying value of receivables and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these items. Cash is carried at fair value using level 1 measurements.

(2) The Company applies a standard Black-Scholes model to value the warrant liability in Note 11.

(3) Loan payable is presented on an amortized cost basis and will be accreted to its face amount over the term to maturity of the loan at an effective interest rate.

##### Fair value measurements

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between the levels during three month ended March 31, 2017.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

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

### Foreign 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.

### 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.

### 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.

### 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.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the contractual maturities of the Company's financial liabilities and operating and capital commitments at March 31, 2017 and December 31, 2016:

| March 31, 2017                            | Current –<br>within 1 year | Non- current –<br>1 to 3 years |
|---|----------------------------|--------------------------------|
| Accounts payables and accrued liabilities | \$ 14,779                  | \$ -                           |
| Advance – Credipresto                     | 500                        | -                              |
| Tax payable                               | -                          | -                              |
| Loan payable                              | 2,461                      | 1,500                          |
| Convertible debenture                     | -                          | 1,884                          |
|   | \$ 17,740                  | \$ 3,384                       |

## Dynasty Metals & Mining Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

| December 31, 2016                         | Current –<br>within 1 year | Non- current –<br>1 to 3 years |
|---|----------------------------|--------------------------------|
| Accounts payables and accrued liabilities | \$ 14,786                  | \$ -                           |
| Advance – Credipresto                     | 923                        |                                |
| Loan payable                              | 2,461                      | 1,500                          |
| Convertible debenture                     | -                          | 958                            |
|   | \$ 18,170                  | \$ 2,458                       |

## 6 Properties, plant and equipment

Net carrying costs at March 31, 2017 and December 31, 2016 are as follows:

|  | Zaruma<br>Mines (a) | Plant and<br>Equipment | Dynasty<br>Goldfields | Land and<br>Buildings | Total              |
|--|---------------------|------------------------|-----------------------|-----------------------|--------------------|
| <b>Cost</b>                            |                     |                        |                       |                       |                    |
| Balance as at December 31, 2015        | \$ 29,847           | \$ 34,156              | \$ -                  | \$ 3,292              | \$ 67,295          |
| Abandoned concessions                  | (204)               | -                      | -                     | -                     | (204)              |
| Disposal                               | (600)               | -                      | -                     | -                     | (600)              |
| <b>Balance as at December 31, 2016</b> | <b>\$ 29,043</b>    | <b>\$ 34,156</b>       | <b>\$ -</b>           | <b>\$ 3,292</b>       | <b>\$ 66,491</b>   |
| Reclassification                       | -                   | -                      | 14,370                | -                     | 14,370             |
| Disposal/lease                         | (250)               | -                      | -                     | (550)                 | (800)              |
| <b>Balance as at March 31, 2017</b>    | <b>\$ 28,793</b>    | <b>\$ 34,156</b>       | <b>\$ 14,370</b>      | <b>\$ 2,742</b>       | <b>\$ 80,061</b>   |
| <b>Accumulated Amortization</b>        |                     |                        |                       |                       |                    |
| Balance as at December 31, 2015        | (2,898)             | (21,727)               | -                     | (251)                 | (24,876)           |
| Impairment                             | (18,651)            | -                      | -                     | -                     | (18,651)           |
| Amortization                           | (296)               | (2,764)                | -                     | (31)                  | (3,091)            |
| <b>Balance as at December 31, 2016</b> | <b>\$ (21,845)</b>  | <b>\$ (24,491)</b>     | <b>\$ -</b>           | <b>\$ (282)</b>       | <b>\$ (46,618)</b> |
| Amortization                           | -                   | (684)                  | (10)                  | (7)                   | (701)              |
| <b>Balance as at March 31, 2017</b>    | <b>\$ (21,845)</b>  | <b>\$ (25,175)</b>     | <b>\$ (10)</b>        | <b>\$ (289)</b>       | <b>\$ (47,319)</b> |
| <b>Net Book Value</b>                  |                     |                        |                       |                       |                    |
| <b>At December 31, 2016</b>            | <b>\$ 7,198</b>     | <b>\$ 9,665</b>        | <b>\$ -</b>           | <b>\$ 3,010</b>       | <b>\$ 19,873</b>   |
| <b>At March 31, 2017</b>               | <b>\$ 6,948</b>     | <b>\$ 8,981</b>        | <b>\$ 14,360</b>      | <b>\$ 2,453</b>       | <b>\$ 32,742</b>   |

#### a) Zaruma Gold Project

The Zaruma Gold Project comprises 37 concessions, located in the El Oro Province of southwestern Ecuador, in the vicinity of the towns of Zaruma and Portovelo. As at March 31, 2017, 35 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.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

---

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 30 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 expects that these actions are unlawful and has taken steps to protect its interest.

During the three months ended March 31, 2017, the Company entered into an agreement for leasing (ranging from a duration of 4 to 10 years) of 324 hectares of the Company’s non-core mining concessions that were part of the Zaruma Project for a total of \$250 (2016 - \$300), realized against property, plant and equipment.

### *b) Impairment*

Assets are reviewed and tested for impairment when events or changes in circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Assets are grouped at the lowest level for which there are separately identifiable cash inflows or cash generating units.

The recoverable amounts of the Company’s cash generating units (“CGUs”), which include mineral properties, plant and equipment are determined where facts and circumstances provide impairment indicators. The recoverable amounts are based on either the CGUs future after-tax cash flows expected to be derived from the Company’s mineral properties or based on the fair value less cost to sell the asset.

At December 31, 2016, the Company determined there were several indicators of potential impairment on its non current assets, including the decline in the Company’s market capitalization. The Company identified the Zaruma Project as one CGU and the Dynasty Property as one CGU. The Company concluded that the Zaruma project had an estimated recoverable value, based on its fair value less costs to sell, below its carrying value and an impairment charge was required.

During December 31, 2016, the Company impaired its Zaruma project by \$18,651 based on fair value less cost of selling. No impairment was recorded on the plant and equipment as it was determined that the carrying value was supported by the expected cash flows from the exploration and evaluation asset cash flows. In addition, the Company realized an impairment charge of \$204 on the abandonment of concessions.

## **7 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 Metals & Mining Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|  | <b>Dynasty<br/>Project (a)</b> |
|--|--------------------------------|
| <b>Costs</b>                           |                                |
| <b>Balance as at December 31, 2015</b> | <b>\$ 14,421</b>               |
| Camp supplies and field cost           | 88                             |
| Geological consulting                  | 255                            |
| Mineral concession rights              | 1,402                          |
| Project administration                 | 25                             |
| Travel and related costs               | 5                              |
| Additions for the period               | 1,775                          |
| Write-down, abandoned properties       | (893)                          |
| <b>Balance as at December 31, 2016</b> | <b>\$ 15,303</b>               |
| Write-down, abandoned properties       | (933)                          |
| Reclassification                       | (14,370)                       |
| <b>Balance as at March 31, 2017</b>    | <b>\$ -</b>                    |

*a) Dynasty Project*

The Dynasty Project, also known as the Dynasty Copper-Gold Belt consists of 24 100% owned concessions.

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

On April 27, 2016, the Company 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 concessions within the Dynasty 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. As part of the agreement, Green Oil S.A. provided the Company with advanced resources for a total of \$448 which was used for working capital purposes as well as payment of outstanding indebtedness to the Ecuadorean Government and suppliers. This balance is repayable to Green Oil S.A. upon production.

During the period ended March 31, 2017, the Company began production from the Dynasty Project and therefore reclassified the balance from the exploration and evaluation to properties, plant and equipment.

The Company abandoned several concessions located at the Dynasty Project during the three months ended March 31, 2017. Costs that had been previously capitalized relating to these concessions amounting to \$933 (2016 - \$nil) were written-off.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

### 8 Accounts payable and accrued liabilities

|   | March 31, 2017 | December 31, 2016 |
|---|----------------|-------------------|
| Trade payable   | \$ 7,880       | \$ 6,765          |
| Green Oil S.A. payable                                | 448            | 448               |
| Payroll related payable and accruals                  | 3,943          | 4,540             |
| Government payable – IVA, Taxes, Royalty, Concessions | 1,908          | 1,961             |
| Royalty and other                                     | 600            | 1,072             |
|   | \$ 14,779      | \$ 14,786         |

### 9 Loan payable

|   | Vertex Loan A (a) | Vertex Loan B (a) | Vertex Loan C (a) | Equipment Loan (b) | Related Party Loan (c) | Total             |
|---|-------------------|-------------------|-------------------|--------------------|------------------------|-------------------|
| Principal outstanding – December 31, 2015*                | \$ 4,000          | \$ -              | \$ -              | \$ 432             | \$ 561                 | \$ 4,993          |
| Restructure   | (4,000)           | 1,500             | 1,500             | -                  | -                      | (1,000)           |
| Additional lending  | -                 | -                 | -                 | -                  | 684                    | 684               |
| Repayment   | -                 | -                 | -                 | (16)               | (700)                  | (716)             |
| <b>Carrying value – December 31, 2016, March 31, 2017</b> | <b>\$ -</b>       | <b>\$ 1,500</b>   | <b>\$ 1,500</b>   | <b>\$ 416</b>      | <b>\$ 545</b>          | <b>\$ 3,961</b>   |
| <b>Long term portion</b>                                  | <b>\$ -</b>       | <b>\$ -</b>       | <b>\$ (1,500)</b> | <b>\$ -</b>        | <b>\$ -</b>            | <b>\$ (1,500)</b> |
| <b>Current portion</b>                                    | <b>\$ -</b>       | <b>\$ 1,500</b>   | <b>\$ -</b>       | <b>\$ 416</b>      | <b>\$ 545</b>          | <b>\$ 2,461</b>   |

Common shares, share purchase warrants noted below are in denominated in thousands.

\*\$133 unamortized cost were fully accreted upon the restructuring

#### a) Vertex Loan Payable

##### Vertex Loan A

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 to Vertex in the aggregate principal amount of \$4,000 ("Vertex Loan A") maturing on May 31, 2016.

Vertex Loan A accrues 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), and received 600 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, 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%.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

---

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 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 \$36 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.

### *Restructuring Agreement – Vertex Loan B and Vertex Loan C*

On September 15, 2016, the Company closed the restructuring agreement on Vertex Loan A. Pursuant to the Restructuring Agreement, the Company issued the following securities to Vertex in exchange for cancellation of the existing debt owed to Vertex:

- ¶ Secured \$1,500 promissory notes incurring interest at 12% with a one-year maturity date (“Vertex Loan B”);
- ¶ Secured \$1,500 promissory notes incurring interest at 12% with a two-year maturity date (“Vertex Loan C”);
- ¶ \$1,000 freely assignable convertible promissory notes incurring interest at 12% with a two-year maturity date, convertible into Shares at CAD\$0.30 per share (subject to a fixed foreign exchange rate of CAD\$1.2895/US\$1.00), secured by a second lien pledge of all of the issued and outstanding capital of Elipe S.A. (the “Convertible Note”)(see note 10);
- ¶ Share purchase warrants (“Warrant”) with an expiry date of September 15, 2018, to purchase an aggregate of 2,400 shares, with an exercise price per warrant equal to CAD\$0.15 (the “Additional Warrants”).
- ¶ 600 outstanding share purchase warrants were repriced from CAD\$0.31 to CAD\$0.15 and were extended to September 15, 2018 (note 11).

The Company assessed this restructuring as an extinguishment of debt. As such, the Company de-recognized debt of \$3,948 related to the Vertex Loan A and recognized new debt of \$1,500 related to Vertex Loan B, \$1,500 related to Vertex Loan C, and \$953 related to the Convertible Note. The Company recognized the difference between the new and old debt along with transaction costs incurred on restructuring as a loss on debt extinguishment. As part of this debt restructuring the Company incurred transaction costs in cash of \$136, the valuation of the 2.4 million Additional Warrants issued as \$296, and the valuation of the modification of 600 warrants as \$13 for total transaction costs of \$445.

### ***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. 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***

On September 9, 2016, the Company settled \$700 of a related party loan by issuance of 6,125 of the Company’s common share valued at \$700.

During three month ended March 31, 2017, related party loan increased by \$nil (Year ended December 31, 2016 - \$684) as a result of \$nil (December 31, 2016 - \$609) in expenditures paid for by a director on behalf of the Company and an advance of \$nil (December 31, 2016 - \$75) from the Chief Financial Officer.

The related party loans are non-interest bearing, unsecured and due on demand.



## Dynasty Metals & Mining Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

## 10 Convertible debenture

| a) Vertex Convertible debt             | March 31, 2017 | December 31, 2016 |
|--|----------------|-------------------|
| Opening balance                        | \$ 958         | \$ -              |
| Additions – restructuring (see note 9) | -              | 1,000             |
| Equity portion                         | -              | (47)              |
| Accretion expense                      | 6              | 5                 |
| Total carrying value.                  | 964            | 958               |

On September 15, 2016, the Company closed the restructuring agreement on Vertex Loan A, creating a \$1,000 convertible debenture (see note 9). The \$1,000 convertible note is convertible into common shares of the Company at CAD\$0.30 per share (subject to the fixed foreign exchange rate of CAD\$1.2895/US\$1.00) until September 15, 2018. Based on the discount factor of 15% over the term of two years, the equity portion was valued at \$47.

For three month ended March 31, 2017, accreted interest for the debenture was \$6 (2016 – \$nil). Interest accrued for three month ended March 31, 2017 was \$30 (2016 - \$nil).

| b) Credipresto convertible debt | March 31, 2017 | December 31, 2016 |
|---------------------------------|----------------|-------------------|
| Opening balance                 | \$ 923         | \$ -              |
| Additions                       | 77             | 923*              |
| Equity portion                  | (49)           | -                 |
| Finance cost (CAD\$50)          | (38)           | -                 |
| Accretion expense               | 7              | -                 |
| Total carrying value.           | 920            | 923               |

\*\$923 were advanced prior to the official closing of the convertible debenture.

On January 30, 2017, the Company completed \$1,000 convertible secured subordinated debenture with Credipresto (\$923 advanced to the Company as at December 31, 2016) with the following key terms: 2-year maturity, 12% interest per annum, CAD\$0.25/share conversion rate, secured through a pledge of all the issued and outstanding share capital of Elipe S.A., an indirect wholly owned subsidiary of the Company, ranking behind the Vertex loans outstanding, and \$38 (CAD\$50) finance fee. Based on the discount factor of 15% over the term of two years, the equity portion was valued at \$49.

For three month ended March 31, 2017, accreted interest was \$7 (2016 – \$nil). Interest accrued for three month ended March 31, 2017 was \$21 (2016 - \$nil).

## 11 Derivative warrant liability

All share purchase warrants disclosed are denominated in thousands.

As at March 31, 2017, the Company has the follow share purchase warrants outstanding:

## Dynasty Metals & Mining Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|                                | Number<br>of warrants<br>(‘000) | Weighted average<br>exercise price<br>(CAD\$) | Warrant<br>liability<br>(US\$) |
|--------------------------------|---------------------------------|---|--------------------------------|
| Balance, December 31, 2015     | 600                             | \$ 0.31                                       | \$ 25                          |
| Warrants repriced (see note 9) | 600                             | \$ 0.15                                       | \$ 13                          |
| Warrants issued (see note 9)   | 2,400                           | \$ 0.15                                       | 296                            |
| Change in fair value           | -                               | -   | (10)                           |
| Balance, December 31, 2016     | 3,000                           | \$ 0.15                                       | \$ 324                         |
| Change in fair value           | -                               | -   | 465                            |
| Balance, March 31, 2017        | 3,000                           | \$ 0.15                                       | \$ 789                         |
| Expiry date                    | Number of warrants (‘000)       | Exercise price (CAD\$)                        |                                |
| September 15, 2018             | 3,000                           | \$ 0.15                                       |                                |

- i) On September 15, 2016, the Company entered into a restructuring agreement (see note 9) with Vertex. On closing, the Company issued 2,400 share purchase warrants that have an exercise price of CAD\$0.15 and an expiry date of September 15, 2018. The warrants were assigned a fair value of \$296 using the Black-Scholes Pricing Model with the follow assumptions – 110% volatility, 0.5% risk free rate, 0% dividend rate and an expected life of 2 years. The fair value related to the warrants issued are capitalized as debt issuance cost related to the restructure.
- ii) In addition to the warrants issuance noted in (i), the Company also repriced the existing 600 warrants from CAD\$0.31 to CAD\$0.15 and extended the expiry to September 15, 2018. The change in fair value of \$13 related the repricing were estimated using the Black-Scholes Model with the following assumption – 110% volatility, 0.5% risk free rate, 0% dividend rate and an expected life of 2 years. This balance was expensed on extinguishment of debt (see note 9).

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. The option pricing model requires the input of highly speculative assumptions, including the expected future price volatility of a Company’s shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company’s warrants.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

|   | March 31, 2017 | March 31, 2016 |
|---|----------------|----------------|
| Expected option life                    | 1.50 years     | 2.00 years     |
| Expected stock price volatility         | 133%           | 68.42%         |
| Dividend payment during life of option  | Nil            | Nil            |
| Expected forfeiture rate                | Nil            | Nil            |
| Risk free interest rate                 | 0.67%          | 0.50%          |
| Weighted average strike price           | \$ 0.15        | \$ 0.15        |
| Weighted average fair value per warrant | \$ 0.35        | \$ 0.15        |
| Weighted average share price            | \$ 0.45        | \$ 0.16        |

## 12 Share capital

All disclosures related to common shares, share purchase options and share purchase warrants are denominated in thousands ('000).

### a) Authorized and issued shares

As at March 31, 2017, the Company had an unlimited number of authorized common shares and 87,829 shares outstanding (December 31, 2016 – 87,829).

### b) Stock options

#### *Stock options*

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 options.

During three month ended March 31, 2017, the Company granted nil options (2016 – 50) with a fair value of \$nil (2016 - \$6), which is being recognized over the vesting periods of the 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 \$141 (2016 - \$14) for three month ended March 31, 2017. The fair value of the stock options is estimated as at the date of the grant using the Black-Scholes pricing model with the following weighted average assumptions for three month ended March 31:

|                          | 2017 | 2016       |
|--------------------------|------|------------|
| Risk-free interest rate  | -    | 0.66%      |
| Expected life            | -    | 3.85 years |
| Annualized volatility    | -    | 69.01%     |
| Pre-vest forfeiture rate | -    | 10.00%     |
| Dividend rate            | -    | 0.00%      |

## Dynasty Metals & Mining Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

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

|                                 | March 31, 2017          |   | December 31, 2016       |   |
|---------------------------------|-------------------------|---|-------------------------|---|
|                                 | Number of Shares ('000) | Weighted average exercise price (CAD\$) | Number of Shares ('000) | Weighted average exercise price (CAD\$) |
| Outstanding – beginning of year | 8,428                   | \$ 0.39                                 | 5,732                   | \$ 1.56                                 |
| Granted                         | -                       | -                                       | 6,125                   | 0.23                                    |
| Cancelled/expired               | -                       | -                                       | (3,429)                 | 2.06                                    |
| Outstanding – end of period     | 8,428                   | \$ 0.39                                 | 8,428                   | \$ 0.39                                 |

The following table discloses the number of options and vested options outstanding as at March 31, 2017:

| Number of options ('000s) | Number of options vested ('000s) | Exercise price CAD\$ | Expiry Date |
|---------------------------|----------------------------------|----------------------|-------------|
| 1,353                     | 1,353                            | 0.92                 | 16-Jul-2018 |
| 1,000                     | 1,000                            | 0.64                 | 21-Nov-2019 |
| 6,075                     | 1,518                            | 0.23                 | 07-Dec-2021 |
| 8,428                     | 3,871                            | 0.39                 |             |

### 13 Cost of sales

|                                       | March 31, 2017  | March 31, 2016  |
|---------------------------------------|-----------------|-----------------|
| Changes in inventories                | \$ -            | \$ 552          |
| Consumables                           | 267             | 1,004           |
| Concession payments                   | 697             | -               |
| Equipment maintenance                 | 43              | 162             |
| Utilities                             | 405             | 481             |
| Salaries and benefits                 | 743             | 1,779           |
| Mining and processing costs and other | 215             | 1,108           |
| <b>Total cost of sales</b>            | <b>\$ 2,370</b> | <b>\$ 5,086</b> |

### 14 Finance expense

|  | March 31, 2017 | March 31, 2016 |
|--|----------------|----------------|
| Accretion of restoration provision           | \$ 17          | \$ 14          |
| Accretion of convertible debenture (note 10) | 13             | -              |
| Interest expense and other                   | 155            | 225            |
| <b>Total finance expense</b>                 | <b>\$ 185</b>  | <b>\$ 239</b>  |

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

### 15 Related party transactions

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

The Company incurred the following expenses with related parties during three month ended March 31, are as follows:

|                          | 2017 | 2016   |
|--------------------------|------|--------|
| Management fees (a)      | \$ - | \$ 105 |
| Stock-based compensation | 70   | 7      |

- a) During three month ended March 31, 2017, the Company paid or accrued management fees of \$nil (2016 - \$105) in favor of a company managed by Director of the Company of which \$nil (2016 - \$26) were capitalized and included in mine properties, plant and equipment and exploration and evaluation properties. As at March 31, 2017 there was \$315 (December 31, 2016 - \$315) included in accounts payable and accrued liabilities owing.
- b) As at March 31, 2017, the related party loan outstanding was \$545 (2016 - \$545), see note 9 for details.

### 16 Supplemental cash flow information

|   | March 31, 2017 | March 31, 2016 |
|---|----------------|----------------|
| Convertible debenture – equity portion                | \$ 49          | \$ -           |
| Convertible debenture – transferred from advance      | 923            | -              |
| Convertible debenture – transaction cost accrued      | 38             | -              |
| Sale of office – proceeds directly sent to settle SRI | (500)          | -              |
| Sale of office – proceeds recorded in receivables     | (100)          | -              |

### 17 Capital management

The Company's capital currently consists of common shares, options and warrants. As the Company is in the early stage production phase for three month ended March 31, 2017 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 three month ended March 31, 2017.

### 18 Segmented disclosure

The Company operates in two geographical and three operating segments. The operating segments are managed separately based on the nature of operations. Prior to January 1, 2017, Exploration and development is primarily Dynasty Project (see note 7) and mining operations is primarily Zaruma Mine (see note 6); both segments are located in Ecuador. During the period ended March 31, 2017 the Company started production at the Dynasty Project and the balance was reclassified into properties, plant and equipment and therefore included in mining operations with no more exploration operating segment. Corporate is located in Canada.

# Dynasty Metals & Mining Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

All of the Company's revenue is generated in Ecuador. Other selected financial information by geographical segment is as follows:

|                                   | As at March 31, 2017 |                  |             |        | As at December 31, 2016 |                   |             |        |
|-----------------------------------|----------------------|------------------|-------------|--------|-------------------------|-------------------|-------------|--------|
|                                   | Corporate            | Mining Operation | Exploration | Total  | Corporate               | Mining Operations | Exploration | Total  |
| Cash and cash equivalent          | \$ 17                | \$ 20            | \$ -        | \$ 37  | \$ 32                   | \$ (12)           | \$ -        | \$ 20  |
| Other receivables and prepaids    | 25                   | 103              | -           | 128    | 22                      | 824               | -           | 846    |
| Inventory                         | -                    | 1,404            | -           | 1,404  | -                       | 1,574             | -           | 1,574  |
| Exploration and evaluation assets | -                    | -                | -           | -      | -                       | -                 | 15,303      | 15,303 |
| Property, plant and equipment     | -                    | 32,742           | -           | 32,742 | -                       | 19,873            | -           | 19,873 |
| Other assets                      | -                    | 232              | -           | 232    | -                       | 205               | -           | 205    |

|                                       | March 31, 2017 | March 31, 2016 |
|---------------------------------------|----------------|----------------|
| Revenue                               |                |                |
| Mining operations                     | \$ 1,010       | \$ 3,533       |
| Loss before income taxes for the year |                |                |
| Mining Operations                     | (5,398)        | (5,972)        |
| Corporate                             | (58)           | (1,007)        |
|                                       | \$ (4,446)     | \$ (3,446)     |

## 19 Commitment and contingencies

As at March 31, 2017, the Company has pending lawsuits that may result up to \$3.5 million in damages. The Company is currently working with its legal counsel and does not expect to settle this balance in full. The Company is subject to various investigations, claims, legal, labor and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably for the Company. Certain conditions may exist as of the date the financial statements are issued that may result in a loss to the Company.

## 20 Subsequent events

- a) On April 4, 2017, the Company completed \$500 convertible (advanced as at March 31, 2017) secured subordinated debenture with Credipresto with the following key terms.
  - 2 years maturity
  - 12% interest per annum
  - CAD\$0.25/share conversion rate (based on CAD\$1.3322/US\$1.00)
  - Secured through a pledge of all of the issued and outstanding share capital of Elipe S.A., an indirect wholly owned subsidiary of the Company, ranking behind the Vertex loans outstanding.
  - CAD\$50 finance fee from \$1,000 convertible debenture (note 10) waived.
  - 750 share purchase warrants issued (exercise price of CAD\$0.33 with a 2 year expiry)

## **Dynasty Metals & Mining Inc.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For three months ended March 31, 2017 and 2016

(amount expressed in thousands of United States dollars, except where indicated) - unaudited

---

- b) On April 25, 2017, the Company completed \$500 convertible secured subordinated debenture with Credipresto with the following key terms.
- 2 years maturity
  - 12% interest per annum
  - CAD\$0.26/share conversion rate (based on CAD\$1.3516/US\$1.00)
  - Secured through a pledge of all of the issued and outstanding share capital of Elipe S.A., an indirect wholly owned subsidiary of the Company, ranking behind the Vertex loans outstanding.
  - 250 share purchase warrants issued (exercise price of CAD\$0.35 with a 2 year expiry)