Dynasty Metals & Mining Inc.

Consolidated Financial Statements
Year Ended December 31, 2016 and 2015
(amount expressed in United States dollars, except where indicated)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dynasty Metals & Mining Inc.

We have audited the accompanying consolidated financial statements of Dynasty Metals & Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dynasty Metals & Mining Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Dynasty Metals & Mining Inc. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

May 1, 2017

Dynasty Metals & Mining Inc.

Consolidated Statements of Financial Position

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

	Note		December 31, 2016		December 31, 2015
Assets					
Current assets					
Cash	6	$	20	$	448
Receivables and prepaid expenses	5,6		846		1,051
Inventory	7		1,574		3,259
			2,440		4,758
Other long term assets			205		158
Properties, plant and equipment	8		19,873		42,419
Exploration and evaluation properties	9		15,303		14,421
Total assets		$	37,821	$	61,756
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	6,10	$	14,786	$	9,865
Advance – Credipresto SA de CV SOFOM ENR (“Credipresto”)	24		923		-
Loan payable – current portion	11		2,461		3,627
			18,170		13,492
Loan payable	11		1,500		1,233
Convertible debenture	12		958		-
Derivative warrant liability	13		324		25
Provision for closure and restoration	14		391		343
Total liabilities			21,343		15,093
Shareholders’ equity					
Share capital	15		94,920		90,477
Reserves	15		15,133		14,913
Deficit			(93,575)		(58,727)
Total shareholders’ equity			16,478		46,663
Total liabilities and shareholders’ equity		$	37,821	$	61,756

Nature of operations and going concern (note 1)
Commitment and contingencies (note 23)
Subsequent events (note 24)

Approved by the Board of Directors

___________”Keith Piggott”_____________ Director _________”Javier Reyes”__________ Director

Dynasty Metals & Mining Inc.

Consolidated Statements of Loss and Comprehensive Loss

Year Ended December 31,
(amount expressed in thousands of United States dollars, except where indicated)

	Notes	2016	2015
Operating Revenue			
		$ 3,851	$ 21,049
Operating Costs			
Cost of sales	16	(10,465)	(26,084)
Depreciation and depletion	8	(3,091)	(3,916)
		(9,705)	(8,951)
Expenses			
Depreciation – corporate	8	-	(124)
General and administration		(2,584)	(2,032)
Insurance		(229)	(260)
Salaries and management fees		(890)	(997)
Professional fees		(427)	(562)
Stock-based compensation	15	(173)	(92)
		(14,008)	(13,018)
Finance expense	17	(1,157)	(569)
Gain in derivative liability (warrant)	13	10	80
Impairment – exploration properties	9	(893)	(2,471)
Impairment – mineral property	8	(18,855)	-
Foreign exchange gain (loss)		55	(182)
Net loss before income tax		(34,848)	(16,160)
Current tax expense	20	-	(328)
Unrecoverable tax pre-payments	20	-	(507)
Net loss and comprehensive loss for the year		$ (34,848)	$ (16,995)
Loss per share – basic and diluted		$ (0.59)	$ (0.39)
Weighted average shares outstanding (000's) – basic and diluted		59,065	43,833
Total shares issued and outstanding (000's)		87,829	46,707

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

Dynasty Metals & Mining Inc.

Consolidated Statement of Changes in Shareholders' Equity

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

	Notes	Number of Shares ('000)	Share Capital	Reserves	Convertible Debenture Reserve	Deficit	Total Equity
Balance at December 31, 2015		46,707	$ 90,477	$ 14,913	$ -	$ (58,727)	$ 46,663
Net loss for the year		-	-	-	-	(34,848)	(34,848)
Share issuance - private placement, net	15	34,997	3,743	-	-	-	3,743
Share issuance - debt settlement	15	6,125	700	-	-	-	700
Equity portion – convertible debenture	12	-	- -	-	47	-	47
Share-based compensation charges	15	-	-	173	-	-	173
Balance at December 31, 2016		87,829	$ 94,920	$ 15,086	$ 47	$ (93,575)	$ 16,478

	Notes	Number of Shares ('000)	Share Capital	Reserves	Convertible Debenture Reserve	Deficit	Total Equity
Balance at December 31, 2014		42,461	$ 89,059	$ 14,821	$ -	$ (41,732)	$ 62,148
Net loss for the year		-	-	-	-	(16,995)	(16,995)
Share issuance - debt settlement	15	4,246	1,418	-	-	-	1,418
Share-based compensation charges	15	-	-	92	-	-	92
Balance at December 31, 2015		46,707	$ 90,477	$ 14,913	$ -	$ (58,727)	$ 46,663

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

Dynasty Metals & Mining Inc.

Consolidated Statement of Cash Flow

Years Ended December 31,
(amount expressed in thousands of United States dollars, except where indicated)

	2016	2015
Cash used from operating activities		
Net loss for the year	$ (34,848)	$ (16,995)
Items not affecting cash		
Depreciation and depletion	3,091	4,122
Share-based compensation	173	92
Loss (gain) on fair value of derivative liability	(10)	(80)
Impairment – exploration and evaluation properties	893	2,471
Impairment – mineral property	18,855	-
Finance cost – loss on debt extinguishment	449	-
Finance cost – convertible debenture accretion	5	-
Finance cost – accretion on asset retirement obligation	48	81
Other (income) expense	(1)	(81)
Change in non-cash operating working capital		
(Increase) decrease in accounts receivable, prepaid expenses and other long term assets	158	(410)
Increase in accounts payables	5,660	2,724
Decrease in inventory	1,685	2,282
Net cash used in operating activities	(3,842)	(5,794)
Cash flows used in investing activities		
Expenditure - exploration and evaluation properties	(1,775)	(1,395)
Expenditure - properties, plant and equipment	-	(504)
Proceeds from sales of mineral concessions	600	-
Net cash used in investing activities	(1,175)	(1,899)
Cash flows used in financing activities		
Proceeds from issuance of loan payable	-	5,000
Advance – convertible debenture	923	-
Proceeds from issuance of related party loan	75	-
Loan payable – issuance cost	-	(142)
Proceeds from private placement	4,000	-
Transaction cost incurred from restructuring	(136)	-
Private placement – issuance cost	(257)	-
Repayment of loan payable	(16)	(166)
Net cash provided by financing activities	4,589	4,692
Decrease in cash	(428)	(3,001)
Cash– beginning of year	448	3,449
Cash– end of year	$ 20	$ 448
Supplemental cash flow information (note 19)		

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

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 December 31, 2016 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 the year ended December 31, 2016, the Company incurred net loss of $34,848 (2015 - $16,995) and as at December 31, 2016, the Company has a working capital deficit of $15,730 (December 31, 2015 - $8,734). 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.

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

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 1, 2017.

3 Summary of significant accounting Policies

Principles of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant inter-company transactions and balances have been eliminated upon consolidation.

Name of Subsidiary	Place of Incorporation	Percentage Ownership
Empire Sun Investment Limited	British Virgin Islands	100%
Elipe S.A.	Ecuador	100%
Polimines Corporation	Panama	100%
Golden Valley Planta S.A.	Ecuador	100%
Greentrade Ecuador Overseas Inc.	Panama	100%
Operaciones Greentrade S.A.	Ecuador	100%
Operaciones Greenmining S.A.	Ecuador	100%
Minsupport S.A.	Ecuador	100%

Foreign currency translation

The presentation currency and the functional currency of the Company and all of the Company's operations is the United States Dollar ("USD"). The Company's foreign currency transactions are translated into USD at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities are translated using period end exchange rates with any gains and losses included in the determination of operating results. Non-monetary assets and liabilities are translated using historical rates.

Revenue recognition

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

Reclassification of prior year

There have been certain immaterial reclassifications in the December 31, 2015 Consolidated Statement of Loss and Comprehensive Loss as well as related notes to the financial statements for comparative purposes.

Earnings (loss) per share

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

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

Inventory

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

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

Mineral Properties, Plant and Equipment

Exploration and evaluation properties

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

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

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

Development properties

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

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

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

Plant and equipment

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

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

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

Provision for closure and restoration

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

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

Stock-based compensation

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

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

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

Impairment on non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years.

Income taxes

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

Financial assets

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

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

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

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

Financial liabilities

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

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

Segment reporting

The chief operating decision-maker has been identified as the Chief Executive Officer of the Company (the "CEO"). The Company has identified one reportable segment (the exploration, mine development and extraction of precious metals, primarily gold). All such concessions and substantially all the capital assets and revenues of the Company are situated in one geographic area, Ecuador, as at the reporting date.

New Accounting Standards Issued but Not Yet Effective

The following standards and amendments to existing standards were not yet effective as of December 31, 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 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.

4 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 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.

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.

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

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.

5 Receivables and prepaid expenses

	December 31, 2016	December 31, 2015
Receivables	$ 23	$ 67
Prepaid expenses		
Prepaid – taxes	358	606
Prepaid – other	223	280
Advances – employees	50	-
Advances – suppliers	192	98
	$ 846	$ 1,051

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

6 Financial instruments

Fair values of financial instruments

The fair values of financial instruments are summarized as follows:

	Fair Value Hierarchy Level	December 31, 2016	December 31, 2015
Financial assets			
Receivables			
Cash [(1)]	N/A	$ 20	$ 448
Receivables [(1)]	N/A	23	67
Financial liabilities			
Other financial liabilities			
Accounts payable & accrued liabilities [(1)]	N/A	14,786	9,865
Advance - Credipresto[(3)]	N/A	923	-
Related party loan[(3)]	N/A	545	561
Loan payable[(3)]	N/A	3,416	4,299
Derivative			
Warrant liability [(2)]	Level 3	324	25

(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 13.

(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 the year ended December 31, 2016.

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.

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

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 December 31, 2016:

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

7 Inventory

	December 31, 2016	December 31, 2015
Stockpile ore	$ -	$ 202
Work in process	-	596
Finished goods	-	146
Consumables	1,574	2,315
	$ 1,574	$ 3,259

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

8 Properties, plant and equipment

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

	Zaruma Mines (a)	Plant and Equipment	Land and Buildings	Total
Cost				
Balance as at December 31, 2014	$ 30,694	$ 33,923	$ 3,292	$ 67,909
Additions	-	1,268	-	1,268
Changes in estimates (note 14)	(847)	(1,035)	-	(1,882)
Balance as at December 31, 2015	**29,847**	**34,156**	**3,292**	**67,295**
Abandoned concessions	(204)	-	-	(204)
Disposal	(600)	-	-	(600)
Balance as at December 31, 2016	**$ 29,043**	**$ 34,156**	**$ 3,292**	**$ 66,491**
Accumulated Amortization				
Balance as at December 31, 2014	$ (1,654)	$ (18,963)	$ (219)	$ (20,836)
Amortization (1)	(1,244)	(2,764)	(32)	(4,040)
Balance as at December 31, 2015	**(2,898)**	**(21,727)**	**(251)**	**(24,876)**
Impairment	(18,651)	-	-	(18,651)
Amortization (1)	(296)	(2,764)	(31)	(3,091)
Balance as at December 31, 2016	**$ (21,845)**	**$ (24,491)**	**$ (282)**	**$ (46,618)**
Net Book Value				
At December 31, 2015	**$ 26,949**	**$ 12,429**	**$ 3,041**	**$ 42,419**
At December 31, 2016	**$ 7,198**	**$ 9,665**	**$ 3,010**	**$ 19,873**

(1) During the year ended December 31, 2016, a total of $nil (2015 - $124) was related to corporate office.

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 December 31, 2016, 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.

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.

In March 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, 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 the year ended December 31, 2016, the Company impaired its Zaruma project by $18,651 (2015 - $nil) 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 (2015 - $nil) on the abandonment of concessions.

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.

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

	Dynasty Project (a)	Jerusalem Project	Other Projects	Total
Costs				
Balance as at December 31, 2014	$ 13,519	$ 1,807	$ 170	$ 15,496
Camp supplies and field cost	11	-	-	11
Geological consulting	250	5	-	255
Mineral concession rights	913	6	-	919
Project administration	108	28	-	136
Travel and related costs	75	-	-	75
Additions for the year	1,357	39	-	1,396
Impairment of long lived asset	-	(1,846)	(170)	(2,016)
Write-down, abandoned properties	(455)	-	-	(455)
Balance as at December 31, 2015	**$ 14,421**	**$ -**	**$ -**	**$ 14,421**
Camp supplies and field cost	88	-	-	88
Geological consulting	255	-	-	255
Mineral concession rights	1,402	-	-	1,402
Project administration	25	-	-	25
Travel and related costs	5	-	-	5
Additions for the period	1,775	-	-	1,775
Write-down, abandoned properties	(893)	-	-	(893)
Balance as at December 31, 2016	**$ 15,303**	**$ -**	**$ -**	**$ 15,303**

a) Dynasty Project

The Dynasty Project, also known as the Dynasty Copper-Gold Belt consists of 28 100% 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. Initial works will begin no later than 15 days (started subsequent to December 31, 2016) 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 $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.

The Company abandoned several concessions located at the Dynasty Project in June 30, 2016. Costs that had been previously capitalized relating to these concessions amounting to $893 (2015 - $455) were written-off.

10 Accounts payable and accrued liabilities

	December 31, 2016	December 31, 2015
Trade payable	$ 6,765	$ 4,637
Green Oil S.A. payable	448	
Payroll related payable and accruals	4,540	2,165
Government payable – IVA, Taxes, Royalty, Concessions	1,961	2,287
Royalty	488	492
Other	584	284
	$ 14,786	$ 9,865

11 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, 2014	$ -	$ -	$ -	$ -	$ 1,000	$ 1,000
Additional lending	4,000	-	-	600	1,000	5,600
Repayment	-	-	-	(168)	(1,439)	(1,607)
Principal outstanding – December 31, 2015	4,000	-	-	432	561	4,993
Unamortized cost	(133)	-	-	-	-	(133)
Carrying value – December 31, 2015	**$ 3,867**	**$ -**	**$ -**	**$ 432**	**$ 561**	**$ 4,860**
Long term portion	**(1,000)**	$ -	$ -	**$ (233)**	**$ -**	**$ (1,233)**
Current portion	**2,867**	$ -	$ -	**$ 199**	**$ 561**	**$ 3,627**
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)
Carrying value – December 31, 2016	**$ -**	**$ 1,500**	**$ 1,500**	**$ 416**	**$ 545**	**$ 3,961**
Long term portion	$ -	**$ -**	**$ (1,500)**	**$ -**	**$ -**	**$ (1,500)**
Current portion	$ -	**$ 1,500**	**$ -**	**$ 416**	**$ 545**	**$ 2,461**

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%. See note 12 for details.

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 (note 13) 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:

i. Secured $1,500 promissory notes incurring interest at 12% with a one-year maturity date ("Vertex Loan B");
ii. Secured $1,500 promissory notes incurring interest at 12% with a two-year maturity date ("Vertex Loan C");
iii. $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 12);
iv. 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"). See note 13 for additional information.
v. 600 outstanding share purchase warrants were repriced from CAD$0.31 to CAD$0.15 and were extended to September 15, 2018 (note 13).

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 (note 17). 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 (note 13), and the valuation of the modification of 600 warrants as $13 (note 13) for total transaction costs of $445.

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

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

The Company previously entered into an interest free promissory note with a principal amount of $2,000 with corporations represented by a director of the Company.

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

During the year ended December 31, 2016, related party loan increased by $684 as a result of $609 in expenditures paid for by a director on behalf of the Company and an advance of $75 from the Chief Financial Officer.

On September 9, 2016, the Company settled $700 of a related party loan by issuance of 6,125 (note 15) of the Company's common share valued at $700.

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

12 Convertible debenture

	December 31, 2016
Opening balance	$ -
Additions – restructuring (see note 11)	1,000
Equity portion	(47)
Accretion expense	5
Total carrying value.	958

On September 15, 2016, the Company closed the restructuring agreement on Vertex Loan A, creating a $1,000 convertible debenture (see note 11). 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. Accreted interest for the debenture for year ended December 31, 2016 was $5 (December 31, 2015 – $nil). Interest accrued for the year ended December 31, 2016 was $35 (December 31, 2015 - $nil).

13 Derivative warrant liability

All share purchase warrants disclosed are denominated in thousands.

As at December 31, 2016, the Company has the follow share purchase warrants outstanding:

	Number of warrants ('000)	Weighted average exercise price (CAD$)	Warrant liability (US$)
Balance, December 31, 2014	-	$ -	$ -
Warrants issued	600	$ 0.73	$ 69
Warrants repriced (i)	600	$ 0.31	36
Change in fair value	-	-	(80)
Balance, December 31, 2015	600	$ 0.31	$ 25
Warrants repriced (see note 11a)(iii)	600	$ 0.15	$ 13
Warrants issued (see note 11a)(ii)	2,400	$ 0.15	296
Change in fair value	-	-	(10)
Balance, December 31, 2016	3,000	$ 0.15	$ 324

Expiry date	Number of warrants ('000)	Exercise price (CAD$)
September 15, 2018	3,000	$ 0.15

i) On October 30, 2015, the Company repriced 600 share purchase warrants from the exercise price of CAD$0.73 to CAD$0.31.

ii) On September 15, 2016, the Company entered into a restructuring agreement (see note 11) 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 (see note 11).

iii) In addition to the warrants issuance noted in (ii), 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 11).

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.

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

	December 31, 2016	December 31 ,2015
Expected option life	1.75 years	-
Expected stock price volatility	126%	-
Dividend payment during life of option	Nil	-
Expected forfeiture rate	Nil	-
Risk free interest rate	0.68%	-
Weighted average strike price	$ 0.15	-
Weighted average fair value per warrant	$ 0.15	-
Weighted average share price	$ 0.22	-

14 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 December 31, 2016 to be $391 (2015 - $343). The present value of the future reclamation obligation assumes an inflation rate of 2.0% (2015 – 2.5%) and a discount rate of 16.0% (2015 – 16.0%), an undiscounted amount to settle the obligation of $2,152 and the commencement of reclamation activities after the life of mine, which is estimate at 13 years. Accretion expense of $48 was recognized during year ended December 31, 2016 (2015 - $81).

Effective December 31, 2015, the Company changed the estimate of the discount rate to be used when calculating the present value of the future reclamation obligations. The discount rate was increased from 4% as at December 31, 2014 to 16% to more accurately reflect the Company's pre-tax rate specific to the liability. This resulted in a $1,882 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 property, plant and equipment.

	December 31, 2016	December 31 ,2015
Balance, beginning of the year	$ 343	$ 2,046
Additional liabilities incurred	-	98
Accretion expense	48	81
Change in estimate (note 8)	-	(1,882)
Balance, end of the year	$ 391	$ 343

15 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 December 31, 2016, the Company had an unlimited number of authorized common shares and 87,829 shares outstanding (December 31, 2015 – 46,707).

On September 9, 2016, the Company completed non-brokered private placement at an issuance price of CAD$0.15 per share, for aggregate gross proceeds of $4,000. A total of 34,997 shares issued under the private placement ("Private Placement"). Share issuance cost related to the Private Placement was $256.

On September 9, 2016, the Company settled $700 of related party loans in exchange for shares at a fair value of CAD$0.15 (note 11). A total of 6,125 shares were issued in connection with the debt settlement.

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 the year ended December 31, 2016, the Company granted 6,125 options (2015 – 125) with a fair value of $673 (2015 -$34), 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 $173 (2015 - $92) for the year ended December 31, 2016. 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 the years ended December 31:

	2016	**2015**
Risk-free interest rate	0.84%	0.57%
Expected life	3.72 years	3.65 years
Annualized volatility	96%	63%
Pre-vest forfeiture rate	10%	10%
Dividend rate	0%	0%

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

	December 31, 2016		December 31, 2015	
	Number of Shares ('000)	Weighted average exercise price (CAD$)	Number of Shares ('000)	Weighted average exercise price (CAD$)
Outstanding – beginning of year	5,732	$ 1.56	5,727	$ 1.64
Granted	6,125	0.23	125	0.79
Cancelled/expired	(3,429)	2.06	(120)	4.70
Outstanding – end of period	8,428	$ 0.39	5,732	$ 1.56

The following table discloses the number of options and vested options outstanding as at December 31, 2016:

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	

16 Cost of sales

	December 31, 2016	December 31, 2015
Changes in inventories	$ 944	$ 201
Consumables	1,337	7,183
Equipment maintenance	131	1,662
Utilities	2,453	2,344
Salaries and benefits	4,235	9,000
Mining and processing costs and other	1,365	5,694
Total cost of sales	**$ 10,465**	**$ 26,084**

17 Finance expense

	December 31, 2016	December 31, 2015
Accretion of restoration provision (note 14)	$ 48	$ 81
Accretion of convertible debenture (note 12)	5	-
Loss on debt extinguishment (note 11)	449	-
Interest expense and accretion of debt	610	429
Bank charges and other fees	45	59
Total finance expense	$ 1,157	$ 569

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

18 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 year ended December 31, are as follows:

	2016	2015
Management fees (a)	$ 315	$ 556
Stock-based compensation	124	25

a) During the year ended December 31, 2016, the Company paid or accrued management fees of $315 (2015 - $556) in favor of a company managed by Director of the Company of which $nil (2015 - $55) were capitalized and included in mine properties, plant and equipment and exploration and evaluation properties. As at December 31, 2016 there was $315 (December 31, 2015 - $221) included in accounts payable and accrued liabilities owing.

b) On September 9, 2016, the Company settled $700 of related party loan in exchange for shares at a subscription price of CAD$0.15 (note 11). A total of 6,125 shares were issued in connection with the debt settlement.

c) As at December 31, 2016, the related party loan outstanding was $545 (2015 - $561), see note 11 for details.

19 Supplemental cash flow information

	December 31, 2016	December 31, 2015
Share issuance – shares for debt (note 15)	$ 700	$ 1,439
Restructure – reclassification from loan payable to convertible debenture	1,000	-
Provision for closure and restoration accrued for plant and equipment (note 14)	-	97
Change in estimate for provision for closure and restoration (note 14)	-	1,881
Acquisition of assets through equipment loan	-	600
Accrual – exploration and evaluation assets and other capital expenditures	-	175
Warrants issuance	-	69
Convertible debenture – equity portion	47	-

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

20 Income Tax

	2016	2015
Loss before income taxes	$ (34,848)	$ (16,160)
Combined federal and provincial statutory income tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	$ (9,060)	$ (4,202)
Impact of different foreign statutory tax rates on earnings of subsidiaries and other	4,390	398
Non-deductible expenditures and non-taxable revenues	506	850
5% participation tax paid to Ecuador government	-	149
Change in unrecognized deductible temporary differences	4,164	3,640
Total income taxes	$ -	$ 835

The significant components of the Company’s deferred tax assets and liabilities are as follows:

	2016	2015
Deferred tax assets (liabilities):		
Mine properties, plant and equipment	$ -	$ (1,606)
Non-capital losses	-	1,606
Net deferred tax liability	$ -	$ -

The significant components of the Company’s deferred tax assets that have not been set up are as follows:

	2016	2015
Share issue costs	$ 119	$ 6
Non-capital losses	8,634	4,583
Total	$ 8,753	$ 4,589

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

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statement of financial position are as follows:

	2016	Expiry Date Range	2015	Expiry Date Range
Share issue costs	$ 284	2036-2040	$ 24	2036 to 2039
Non-capital losses	36,815	2026-2036	19,710	2016 to 2035

21 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 the year ended December 31, 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 year ended December 31, 2016.

22 Segmented disclosure

The Company operates in two geographical and three operating segments. The operating segments are managed separately based on the nature of operations. Exploration and development is primarily Dynasty Project (see note 9) and mining operations is primarily Zaruma Mine (see note 8); both segments are located in Ecuador. Corporate is located in Canada.

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

	As at December 31, 2016				As at December 31, 2015			
	Corporate	Mining Operation	Exploration	Total	Corporate	Mining Operations	Exploration	Total
Cash and cash equivalent	$ 32	$ (12)	$ -	**$ 20**	$ 327	$ 121	$ -	**$ 448**
Other receivables and prepaids	22	824	-	**846**	444	607	-	**1,051**
Inventory	-	1,574	-	**1,574**	-	3,259	-	**3,259**
Exploration and evaluation assets	-	-	15,303	**15,303**	-	-	14,421	**14,421**
Property, plant and equipment	-	19,873	-	**19,873**	-	42,419	-	**42,419**
Other assets	-	205	-	**205**	-	158	-	**158**

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

	December 31, 2016	December 31, 2015
Revenue		
Mining operations	$ 3,851	$ 21,049
Loss before income taxes for the year		
Mining Operations	(36,516)	(30,001)
Corporate	(2,183)	(8,043)
	$ (34,848)	$ (16,995)

23 Commitment and contingencies

As at December 31, 2016, 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.

24 Subsequent events

a) On January 31, 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 years maturity
- 12% interest per annum
- CAD$0.25/share conversion rate, based on the noon Bank of Canada Canadian dollar/US dollar exchange rate on the date immediately preceding the closing of the offering
- 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 corporate finance fee

b) On April 4, 2017, the Company completed $500 convertible secured subordinated debenture with Credipresto with the following key terms.

- 2 years maturity
- 12% interest per annum
- CAD$0.25/share conversion rate, based on the noon Bank of Canada Canadian dollar/US dollar exchange rate on the date immediately preceding the closing of the offering
- 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 24(a)) waived.
- 750 share purchase warrants issued (exercise price of CAD$0.33 with a 2 year expiry)

c) 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 the noon Bank of Canada Canadian dollar/US dollar exchange rate on the date

immediately preceding the closing of the offering

- 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)