

DYNASTY METALS & MINING INC.
(the “Company”)

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

JUNE 30, 2015

DYNASTY METALS & MINING INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Vancouver, Canada

August 13, 2015

DYNASTY METALS & MINING INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

Expressed in United States dollars unless otherwise noted

	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014
OPERATING REVENUES	<u>\$ 8,177,533</u>	<u>\$ 15,676,886</u>	<u>\$ 4,451,297</u>	<u>\$ 5,999,302</u>
OPERATING COSTS (Note 4)				
Mining and processing	11,513,925	12,498,079	5,914,799	6,603,755
Royalties	503,098	752,604	348,452	379,238
Depreciation and depletion	<u>1,753,493</u>	<u>2,321,189</u>	<u>863,722</u>	<u>1,215,739</u>
	<u>13,770,516</u>	<u>15,571,872</u>	<u>7,126,973</u>	<u>8,198,732</u>
EARNINGS (LOSS) FROM MINE OPERATIONS	(5,592,983)	105,014	(2,675,676)	(2,199,430)
EXPENSES				
Corporate administration (Note 5)	1,948,644	2,062,796	925,907	865,453
Stock-based compensation (Note 12)	<u>51,089</u>	<u>134,563</u>	<u>33,538</u>	<u>39,236</u>
	<u>1,999,733</u>	<u>2,197,359</u>	<u>959,445</u>	<u>904,689</u>
EARNINGS (LOSS) FROM OPERATIONS	(7,592,716)	(2,092,345)	(3,635,121)	(3,104,119)
OTHER EXPENSES				
Finance expense (Note 6)	73,030	48,663	46,885	24,493
Foreign exchange loss (gain)	<u>168,892</u>	<u>(43,781)</u>	<u>68,503</u>	<u>45,627</u>
	<u>241,922</u>	<u>4,942</u>	<u>115,388</u>	<u>70,120</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(7,834,638)	(2,097,287)	(3,750,509)	(3,174,239)
INCOME TAXES				
Current tax expense	<u>-</u>	<u>27,565</u>	<u>-</u>	<u>-</u>
NET EARNINGS / (LOSS) AND COMPREHENSIVE EARNINGS / (LOSS) FOR THE PERIOD	\$ (7,834,638)	\$ (2,124,852)	\$ (3,750,509)	\$ (3,174,239)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.18)	\$ (0.05)	\$ (0.09)	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	42,461,083	42,461,083	42,461,083	42,461,083

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

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

As at	June 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash	\$ 1,748,629	\$ 3,449,944
Receivables	54,743	21,004
Prepaid expenses	757,060	619,266
Inventory (Note 7)	<u>5,253,198</u>	<u>4,202,349</u>
	7,813,630	8,292,563
Advances, deposits and warranties	155,348	306,348
Mine properties, plant and equipment (Note 8)	46,244,286	47,073,914
Exploration and evaluation properties (Note 9)	<u>16,615,271</u>	<u>15,497,038</u>
	<u>\$ 70,828,535</u>	<u>\$ 71,169,863</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,718,070	\$ 5,227,981
Taxes payable	239,618	746,608
Short term loans (Note 10)	<u>6,015,896</u>	<u>1,000,000</u>
	13,973,584	6,974,589
Long term loans (Note 10)	333,333	-
Provision for closure and restoration (Note 11)	<u>2,087,657</u>	<u>2,046,799</u>
	<u>16,394,574</u>	<u>9,021,388</u>
Shareholders' equity		
Capital stock (Note 12)	89,059,365	89,059,365
Contributed surplus (Note 12)	14,941,705	14,821,581
Deficit	<u>(49,567,109)</u>	<u>(41,732,471)</u>
	<u>54,433,961</u>	<u>62,148,475</u>
	<u>\$ 70,828,535</u>	<u>\$ 71,169,863</u>

Nature and continuance of operations (Note 1)

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

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

	Number of Shares	Capital Stock	Deficit	Contributed Surplus	Total
Balance at December 31, 2014	42,461,083	\$ 89,059,365	\$ (41,732,471)	\$ 14,821,581	\$ 62,148,475
Net loss for the period	-	-	(7,834,638)	-	(7,834,638)
Stock-based compensation	-	-	-	51,089	51,089
Share purchase warrants issued	-	-	-	69,035	69,035
Balance at June 30, 2015	<u>42,461,083</u>	<u>89,059,365</u>	<u>(49,567,109)</u>	<u>14,941,705</u>	<u>54,433,961</u>
Balance at December 31, 2013	42,461,083	\$ 89,059,365	\$ (39,001,937)	\$ 13,941,386	\$ 63,998,814
Earnings for the period	-	-	(2,124,852)	-	(2,124,852)
Stock-based compensation	-	-	-	134,563	134,563
Balance at June 30, 2014	<u>42,461,083</u>	<u>89,059,365</u>	<u>(41,126,789)</u>	<u>14,075,949</u>	<u>62,008,525</u>

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

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

	For the Six Months Ended June 30 2015	For the Six Months Ended June 30 2014	For the Three Months Ended June 30 2015	For the Three Months Ended June 30 2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	\$ (7,834,638)	\$ (2,124,852)	\$ (3,750,509)	\$ (3,174,239)
Items not affecting cash:				
Depreciation and depletion	1,863,448	2,415,477	920,981	1,262,175
Stock-based compensation	51,089	134,563	33,538	39,236
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(33,741)	345	(38,240)	(1,536)
(Increase) decrease in prepaid expenses	(137,794)	(201,570)	(19,129)	105,167
(Increase) decrease in inventory	434,043	(314,840)	478,303	475,590
Increase (decrease) in accounts and taxes payable	593,870	(2,783,645)	(9,476)	(1,416,947)
Net cash provided by (used in) operating activities	<u>(5,063,723)</u>	<u>(2,874,522)</u>	<u>(2,384,532)</u>	<u>(2,710,555)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures on exploration and evaluation properties	(1,118,233)	(1,060,935)	(111,506)	(155,609)
Expenditures on mine properties, plant and equipment	<u>(932,692)</u>	<u>(488,819)</u>	<u>(22,767)</u>	<u>(22,214)</u>
Net cash used in investing activities	<u>(2,050,925)</u>	<u>(1,549,754)</u>	<u>(134,273)</u>	<u>(177,823)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of loans	5,600,000	-	4,000,000	-
Repayment of short term debt	(66,667)	(132,591)	(50,000)	-
Debt transaction costs	<u>(120,000)</u>	<u>-</u>	<u>(120,000)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>5,413,333</u>	<u>(132,591)</u>	<u>3,830,000</u>	<u>-</u>
Change in cash for the period	(1,701,315)	(4,556,867)	1,311,195	(2,888,378)
Cash, beginning of period	<u>3,449,944</u>	<u>4,913,500</u>	<u>437,434</u>	<u>3,245,011</u>
Cash, end of period	\$ 1,748,629	\$ 356,633	\$ 1,748,629	\$ 356,633
Cash paid during the period for interest	\$ 20,737	\$ 14,617	\$ 16,487	\$ 11,836
Cash paid during the period for income taxes	\$ 109,630	\$ 449,302	\$ 109,630	\$ 449,302
Cash received during the period for interest	\$ -	\$ -	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 14)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

On April 18, 2008, Ecuador's Constitutional Assembly passed a Constituent Mandate resolution (the "Mining Mandate"), which provided, among other provisions, for the suspension of mineral exploration activities for 180 days, or until a new Mining Law was approved. In January 2009, the new Mining Act was published. In November 2009, the regulations and procedures to operate under the new Mining Act were signed by the President of Ecuador and published in the Official Registry, after which time the new Mining Act and Regulations (collectively, the "Mining Law") were enacted. The Mining Law was further amended in July 2013 to distinguish between small, medium and large scale operations. The Mining Law provides that operations mining up to 300 tonnes of mined material per day on an individual concession may be categorized as a smaller scale operation and are required to pay a fixed royalty of 3%; operations mining between 301 and 1,000 tonnes of mined material per day on an individual concession may be categorized as a medium scale operation and are required to pay a fixed royalty of 4%; and operations mining in excess of 1,000 tonnes of mined material per day on an individual concession are categorized as large scale operations and are required to enter into an exploitation contract with the government which sets out specific terms and conditions of the particular operation, including the royalty between 5% and 8% and the application of a windfall tax.

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

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

From inception until 2010, the Company had funded substantially all of its operating and capital expenses with proceeds from the sale of capital stock. From 2010 and up until September 30, 2013, mine development expenses and overheads were primarily funded from the sale of precious metals produced during mine construction at the Zaruma Gold Project. During this time the Company was in the pre-commercial stage of operations having yet to reach the stage of sustainable commercial production.

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

Continuing operations are dependent upon the Company's ability in the future to mitigate the risks and overcome the challenges generally associated with comparable development and early stage production enterprises, most significantly, it must either continue to generate sufficient cash flow from the sale of precious metals in the future or secure additional working capital as required, neither of which is assured.

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

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

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB (“International Accounting Standards Board”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34- Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company’s audited annual financial statements for the year ended December 31, 2014.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of August 13, 2015, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the consolidated financial statements for the period ended June 30, 2015.

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

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

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

Mineral resource estimation

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

2. BASIS OF PRESENTATION (cont'd)

Inventories

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

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

Provision for closure and restoration

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

Units-of-production ("UOP") amortization

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

Income Taxes

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Stock-based compensation

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

The key sources of 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;

Commencement of commercial production

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, which includes the grade and volume of material mined, are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments.

2. BASIS OF PRESENTATION (cont'd)

Assets' carrying values and impairment charges

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

The following standards and amendments to existing standards have been adopted:

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

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

4. OPERATING COSTS

	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014
Mining and processing				
Changes in inventories	\$ (1,147,457)	\$ 716,436	\$ 201,324	\$ 196,028
Consumables	3,493,814	4,068,767	1,450,649	2,369,426
Employee participation taxes	-	55,130	-	-
Equipment maintenance	1,035,862	1,173,154	315,767	567,428
Other mining and processing costs	1,186,851	968,678	554,788	433,616
Rentals	1,222,758	832,687	538,398	463,452
Utilities	996,842	699,657	605,698	418,394
Salaries and benefits	<u>4,725,255</u>	<u>3,983,570</u>	<u>2,248,175</u>	<u>2,155,411</u>
Total mining and processing	<u>11,513,925</u>	<u>12,498,079</u>	<u>5,914,799</u>	<u>6,603,755</u>
Royalties	503,098	752,604	348,452	379,238
Depreciation and depletion	<u>1,753,493</u>	<u>2,321,189</u>	<u>863,722</u>	<u>1,215,739</u>
Total operating costs	<u>\$ 13,770,516</u>	<u>\$ 15,571,872</u>	<u>\$ 7,126,973</u>	<u>\$ 8,198,732</u>

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JUNE 30, 2015
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5. CORPORATE ADMINISTRATION

	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014
Amortization	\$ 64,166	\$ 94,287	\$ 31,870	\$ 46,435
Insurance	144,725	122,843	56,336	61,661
Office and general	549,919	546,637	264,960	156,497
Other	367,325	362,654	182,689	149,322
Professional fees	303,621	403,701	128,816	163,910
Salaries and management fees	<u>518,888</u>	<u>542,674</u>	<u>261,236</u>	<u>287,629</u>
Total corporate administration	\$ 1,948,644	\$ 2,062,796	\$ 925,907	\$ 865,453

6. FINANCE EXPENSE

	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014
Accretion of restoration provision	\$ 40,858	\$ 36,729	\$ 20,429	\$ 18,364
Interest and accretion on debt	20,681	-	20,681	-
Bank charges and other fees	<u>11,491</u>	<u>11,934</u>	<u>5,775</u>	<u>6,128</u>
Total corporate administration	\$ 73,030	\$ 48,663	\$ 46,885	\$ 24,493

7. INVENTORY

	June 30 2015	December 31 2014
Stockpiled mined material	\$ 627,494	\$ 783,393
Gold and silver in-process	933,589	98,506
Gold and silver dore	<u>729,972</u>	<u>263,060</u>
Materials and supplies	<u>2,291,025</u>	<u>1,144,959</u>
	\$ 5,253,198	\$ 4,202,349

DYNASTY METALS & MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015
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8. MINE PROPERTIES, PLANT AND EQUIPMENT

Net carrying costs at June 30, 2015 and December 31, 2014 are as follows:

	Zaruma Mines	Plant and Equipment	Land and Buildings	Total
Cost				
Balance as at December 31, 2013	\$ 30,694,365	\$ 33,584,069	\$ 3,292,747	\$ 67,571,181
Additions	-	469,173	-	469,173
Disposals	-	(130,037)	-	(130,037)
Balance as at December 31, 2014	30,694,365	33,923,205	3,292,747	67,910,317
Additions	-	1,192,083	-	1,192,083
Disposals	-	-	-	-
Balance as at June 30, 2015	\$ 30,694,365	\$ 35,115,288	\$ 3,292,747	\$ 69,102,400
Accumulated amortization				
Balance as at December 31, 2013	\$ 358,555	\$ 15,715,481	\$ 187,504	\$ 16,261,540
Amortization	1,295,779	3,377,834	31,287	4,704,900
Disposals	-	(130,037)	-	(130,037)
Balance as at December 31, 2014	1,654,334	18,963,278	218,791	20,836,403
Amortization	474,479	1,531,588	15,644	2,021,711
Disposals	-	-	-	-
Balance as at June 30, 2015	\$ 1,912,718	\$ 19,784,533	\$ 226,613	\$ 21,923,864
Net book value				
At December 31, 2014	\$ 29,040,031	\$ 14,959,927	\$ 3,073,956	\$ 47,073,914
At June 30, 2015	\$ 28,565,552	\$ 14,620,422	\$ 3,058,312	\$ 46,244,286

Mines under construction

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

Plant and equipment

The Company has completed the construction of a production facility to process material extracted from its Zaruma Gold Project. Plant construction includes the cost of engineering, materials, construction labor, machinery, equipment and the operating costs of commissioning the plant until June 30, 2010. Subsequent to this date the Company commenced amortizing the plant over its estimated useful life.

Equipment includes various machinery and equipment being used in the development of portals and to mine material from the Zaruma Gold Project.

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

Land and building

The Company purchased the land on which the Zaruma Gold Project Plant is located as well as certain land to secure surface access to parts of the Dynasty and Zaruma exploration and development projects. The Company also owns office buildings in Quito.

9. EXPLORATION AND EVALUATION PROPERTIES

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

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2013	<u>\$ 12,257,469</u>	<u>\$ 1,640,327</u>	<u>\$ 170,169</u>	<u>\$ 14,067,965</u>
Costs				
Camp supplies and field costs	21,135	-	-	21,135
Geological consulting	192,821	2,556	-	195,377
Mineral concession rights	758,906	3,825	-	762,731
Project administration	172,050	76,503	-	248,553
Technical reports and services	57,151	84,228	-	141,379
Travel and related costs	<u>59,898</u>	<u>-</u>	<u>-</u>	<u>59,898</u>
Additions for the year	<u>1,261,961</u>	<u>167,112</u>	<u>-</u>	<u>1,429,073</u>
Balance, December 31, 2014	<u>\$ 13,519,430</u>	<u>\$ 1,807,439</u>	<u>\$ 170,169</u>	<u>\$ 15,497,038</u>

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2014	<u>\$ 13,519,430</u>	<u>\$ 1,807,439</u>	<u>\$ 170,169</u>	<u>\$ 15,497,038</u>
Costs				
Camp supplies and field costs	4,399	-	-	4,399
Geological consulting	122,505	5,250	-	127,755
Mineral concession rights	894,200	1,991	-	896,191
Project administration	62,039	17,249	-	79,288
Travel and related costs	<u>10,600</u>	<u>-</u>	<u>-</u>	<u>10,600</u>
Additions for the period	<u>1,093,743</u>	<u>124,490</u>	<u>-</u>	<u>1,118,233</u>
Balance, June 30, 2015	<u>\$ 14,613,173</u>	<u>\$ 1,831,929</u>	<u>\$ 170,169</u>	<u>\$ 16,615,271</u>

9. EXPLORATION AND EVALUATION PROPERTIES (cont'd)

Zaruma Gold Project

The Zaruma Gold Project comprises 46 concessions, located in the El Oro Province of southwestern Ecuador, in the vicinity of the towns of Zaruma and Portovelo. As at June 30, 2015, 43 of the concessions are 100% owned, one is 50% owned and one is 25% owned and subject to a concession sharing arrangement. The Company has title to the remaining concession and has paid the majority of applicable option payments on this concession.

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

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

Jerusalem Project

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

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

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

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

Dynasty Project

The Dynasty Project, also known as the Dynasty Copper-Gold Belt consists of 52, 100% owned concessions.

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

10. SHORT AND LONG TERM LOANS

	Promissory Notes	Equipment Loan	Related Party Loan	Total
Short term loans, December 31, 2014	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Increase in principal borrowed	4,000,000	600,000	1,000,000	5,600,000
Repayment of principal	-	(66,667)	-	(66,667)
Less:				
- Unamortised transaction costs	(184,104)	-	-	(184,104)
- Long term portion	-	(333,333)	-	(333,333)
Short term loans, June 30, 2015	\$ 3,815,896	\$ 200,000	\$ 2,000,000	\$ 6,015,896

Promissory Notes

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

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

In connection with the financing, Vertex was paid a cash fee in an amount equal to 3% of the aggregate principal amount of the Notes, and received 600,000 common share purchase warrants ("Warrant"). Each Warrant entitles the holder thereof, for a period of 24 months, to acquire one common share of the Company at a price equal to \$0.73, subject to the certain terms and conditions. The warrants were valued at \$54,104 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%.

Equipment Loan

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

Related Party Loan

The Company entered into an interest free promissory notes with corporations represented by the Company's President and Chief Executive Officer. The principal amount of the notes, on aggregate, is \$2,000,000 which is repayable on demand. The promissory notes are secured by way of a General Security Agreement over certain assets of the Company.

11. PROVISION FOR CLOSURE AND RESTORATION

The Company's environmental permit at the Zaruma Gold Project requires that it reclaim any land it disturbs during the mine and plant construction and operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to June 30, 2015 to be \$2,087,657 (2014 - \$2,046,799). The present value of the future reclamation obligation assumes an inflation rate of 2.5% and a discount rate of 4.0%, an undiscounted amount to settle the obligation of \$1,915,501 and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

11. PROVISION FOR CLOSURE AND RESTORATION (cont'd)

	June 30 2015	December 31 2014
Balance, beginning of period	\$ 2,046,799	\$ 1,845,452
Liabilities incurred in the period	-	127,890
Accretion expense	<u>40,858</u>	<u>73,457</u>
Balance, end of period	<u>\$ 2,087,657</u>	<u>\$ 2,046,799</u>

12. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized and issued shares

At June 30, 2015, the Company had an unlimited number of authorized common shares and 42,461,083 shares outstanding (2014 – 42,461,083). All per share amounts below are in Canadian dollars (CAD) which, at June 30, 2015, is equivalent to 0.8064 US dollars.

Stock options and warrants

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

The Company uses a fair value method of accounting for all stock-based payments. Under this method, the Company recorded a stock-based compensation expense of \$51,089 and \$33,538 for the three and six months ended June 30, 2015, respectively (\$134,563 and \$39,236 for the six and three months ended June 30, 2014, respectively) with a corresponding credit to contributed surplus. The fair value of the stock options is estimated as at the date of the grant using the Black-Scholes pricing model assuming the following weighted average assumptions:

	2015	2014
Risk-free interest rate	0.56%	1.20%
Expected life	3.65 years	3.55 years
Annualized volatility	63.12%	60.68%
Pre-vest forfeiture rate	10.00%	10.00%
Dividend rate	0.00%	0.00%

During the six months ended June 30, 2015, the Company granted 125,000 options (2014 – 658,500 options) with a fair value of \$33,147 (2014 - \$223,710), which is being recognized over the vesting periods of the options.

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

Stock options and warrants (cont'd)

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

	Stock options	
	Number	Weighted Average Exercise Price (CAD\$)
Balance, December 31, 2013	5,176,300	\$ 3.19
Granted	2,361,500	0.93
Expired	<u>(1,810,000)</u>	5.13
Balance, December 31, 2014	5,727,800	1.64
Granted	125,000	0.79
Expired	<u>(70,000)</u>	4.81
Balance, June 30, 2015	5,762,800	\$ 1.57

The following stock options were outstanding as at June 30, 2015:

Exercise price range	Options outstanding			Options exercisable	
	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD\$)	Number of stock options exercisable	Weighted average exercise price (CAD\$)
\$0.64 - \$0.72	1,490,000	2.98	0.64	1,490,000	0.64
\$0.73 - \$0.91	748,500	3.66	0.87	353,417	0.88
\$0.92 - \$1.20	1,678,000	4.33	0.92	1,678,000	0.92
\$1.21 - \$3.20	1,431,000	1.49	2.99	1,383,500	3.03
\$3.21 - \$4.53	435,300	0.97	3.92	415,300	3.92
	5,762,800	2.95	1.57	5,320,217	1.62

During the six months ended June 30, 2015, no options were exercised (2014 – nil). The weighted average fair value per stock option granted during the six months ended June 30, 2015 was \$0.27 per option. As at June 30, 2015, the non-vested stock-based compensation expense not yet recognized was \$67,177 which is to be recognized over the next 14.8 months.

During the three and six months ended June 30, 2015 the Company granted 600,000 share purchase warrants with an exercise price of \$0.73 per warrant, expiring on June 22, 2017. There were no share purchase warrants outstanding as at December 31, 2014

13. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the six months ended June 30, 2015 and 2014:

- a) paid management fees of \$210,000 (2014 - \$210,000) to a company managed by the President and Chief Executive Officer of the Company of which \$26,250 (2014 - \$26,250) were capitalized and included in mine properties, plant and equipment and exploration and evaluation properties.

Included in accounts payable at June 30, 2015 is \$20,549 (December 31, 2014 - \$25,248) of accrued management fees to a company managed by a director of the Company.

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

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

- a) During the six months ended June 30, 2015, the Company acquired inventory at a cost of \$2,384,683 and incurred capital expenditures of \$185,829 through accounts payable. In addition, the Company granted 600,000 warrants on loans payable valued at \$69,035.
- b) During the six months ended June 30, 2014, the Company acquired inventory at a cost of \$991,904 and incurred capital expenditures of \$374,709 through accounts payable.

15. CAPITAL DISCLOSURE

The Company's capital currently consists of common shares, options and warrants. As the Company is in the early stage production phase for the six months ended June 30, 2015 its principal source of funds is currently from the production and sale of precious metals and it is not subject to any externally imposed capital restrictions. The Company's capital management objectives are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to have sufficient capital to be able to meet the Company's property development and exploration plans. These objectives have not changed during the six months ended June 30, 2015.

16. FINANCIAL INSTRUMENTS

Financial assets and liabilities

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

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

16. FINANCIAL INSTRUMENTS (cont'd)

Credit Risk

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

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

Currency Risk

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

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

Interest Rate Risk

The Company maintains short-term deposits in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. The Company has no significant interest bearing debt and other interest rate risks on the Company's operations are not considered material.

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.

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.