DYNASTY METALS & MINING INC.

(the "Company")

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015

Date and Subject of this Discussion and Analysis

This management's discussion and analysis (the "MD&A"), which is dated and has been prepared based on information available as at May 14, 2015, is integral to, and should be read in conjunction with, the Company's unaudited financial statements for the three months ended March 31, 2105 and the Company's audited financial statements for the years ended December 31, 2014 and 2013 (the "Audited Financial Statements"). These documents, and additional information relating to the Company, including the Company's Annual Information Form dated March 31, 2015, are available for viewing on SEDAR at www.sedar.com. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are in United States dollars unless otherwise noted.

Cautionary Statement Regarding Forward-Looking Information

This MD&A and the documents incorporated by reference herein contain forward-looking information within the meaning of the applicable Canadian securities laws concerning our planned activities for the current financial year, our plans to explore and develop the Zaruma Gold Project and our other mining properties, our estimated resources, production, capital costs and operating and cash flow estimates, the effect of artisanal mining activity at the Jerusalem Gold Project and other matters. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using the words or phrases such as "expects," "anticipates," "plans," "projects," "estimates," "assumes," "intends," "strategy," "goals," "objectives," "potential" or variations thereof or stating that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be "forward-looking information." Statements concerning resource estimates may also be deemed to constitute forward-looking information to the extent that they involve estimates of the mineralization that will be encountered if the property is developed. Forward looking information are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking statements and the Company cautions that all forward-looking information is inherently uncertain and that actual performance may be affected by a number of material factors, many of which are beyond the Company's control. Such factors include, among others, risks and uncertainties relating to exploration and development; risks related to mineral resource figures being estimates based on interpretations and assumptions which may result in less mineral production under actual conditions, if the projects are developed, and to diminishing quantities or grades of mineral resources if these projects are mined; risks that the Jerusalem Gold Project resources will continue to be negatively impacted by artisanal mining activities and that the Company will be unable to curtail such activities; the need to comply with environmental and governmental regulations; political and economic instability and general civil unrest in Ecuador; potential defects in title to the Company's properties; fluctuating prices of commodities; competition; and other risks and uncertainties, including those described in the Company's Annual Information Form dated March 31, 2015 filed with the Canadian Securities Administrators and available at www.sedar.com.

Cautionary Note to United States Investors

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

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

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

Scientific and Technical Information

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

Non-GAAP Financial Measures

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

Description of Business

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

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

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

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

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

(1) Elipe S.A. ("Elipe"), and Greentrade Ecuador Overseas Inc. ("Greentrade Ecuador") are 100% beneficially owned by Empire Sun Investments Limited ("Empire Sun"). Elipe is the registered owner of all of the Corporation's mineral concessions and Polimines Corporation and Greentrade Ecuador are holding companies.

(2) Golden Valley Planta S.A. ("Golden Valley") is 100% beneficially owned by the Corporation. Golden Valley was established to obtain permits to process the material from the mineable properties owned by Elipe, in due course, under contract.

(3) Operaciones Greentrade S.A. ("Greentrade"), Operaciones Greenmining S.A. ("Greenmining") and Minsupport S.A. ("Minsupport") are 100% beneficially owned by Greentrade Ecuador. These entities were initially incorporated to administer employee labour contracts, which were subsequently transferred to Elipe and Golden Valley.

Zaruma Gold Project

Zaruma Mine Operations Update

The Company previously commenced the development of three separate declines, being "Cabo de Hornos" (the "main decline"), "Ayapamba" and "Barbasco", at the Zaruma Project to access the resource contained therein. Primarily as a result of budget constraints since 2013, the Company has concentrated development activities on the main decline, "Cabo de Hornos", since it provided the best access to the in-situ resources and where the installation of an electrical sub-station allows the mine to be powered from the main grid.

The main decline has now advanced in excess of 3.5 kilometres from the portal entrance at mine Level 700. During the three months ended March 31, 2015, when the main decline reached mine Level 360 it was split with extensions advancing to the north (the "Northern Extension") and the south (the "Southern Extension") which will provide future simultaneous access to multiple high grade veins including, amongst others, the Soroche vein, the Matalanga vein, the Abundacia vein, the St. Ernest vein and the Nudo vein. The dimension of the main decline remains between 4.5 x 5 metres ("m") and 5 x 5 m throughout.

The majority of the high grade material previously mined to date has been extracted from veins operating between Level 600 to Level 450. The proximity of old underground workings, some sections of which still contain water, has meant that it has been more efficient in the short term to advance the decline deeper rather than expanding the mine laterally on these levels. To achieve this, the focus of mining operations for the three months ended March 31, 2015 and to date has been on the development of the declines.

The reallocation of the Company's focus and resources from the mining of resource grade material to development has resulted in a decrease in the grade of the material mined and hence a decrease in gold production in the first quarter of 2015 as compared to the three months ended December 31, 2014, the three months ended September 30, 2014 and the three months ended March 31, 2014.

Northern Extension
The Company is developing a separate incline and a decline off the Northern Extension. The northern incline has now advanced 70 m and has intercepted the Soroche vein, and concurrent with the development of the Soroche vein for mining, the

Company plans to extend the northern incline an additional 100 m running adjacent to the vein to provide access to additional resource material for mining in the future.

To date the northern decline has advanced 160 m and is expected to intercept the Soroche vein, approximately 40 m beneath the level of the northern incline in the coming weeks. The Company then plans to advance the northern decline for an additional 100 m running adjacent to the vein.

The development of both the incline and decline off the northern extension will allow the Company to mine multiple faces on the Soroche vein simultaneously with an estimated average of 40 m of the vein above the incline and an estimated average of 40 m of the vein above the decline, up to the level of the incline, being available to mine.

Southern Extension
The southern extension has currently advanced 190 m and needs to extend a further 60 m to reach the Matalanga vein. Once the Matalanga vein has been reached, concurrent with the development of the Matalanga vein to prepare it for mining, it is expected the southern extension will continue to advance for another 50 m, which is the estimated length of the Matalanga vein. From here it is expected that the Matalanga vein will be available to be mined upwards for approximately 60 m on average.

To expedite this decline development and to facilitate the mining of multiple faces on multiple veins in the future at a deeper level of the mine, the Company has made significant investments of its mining and financial resources to advance these declines in 2015 to date including:

- The purchase of a new Atlas Copco two Boom Jumbo ("Jumbo") for approximately $1 million. The Company now owns three of these machines which are operational as well as an additional Jumbo which is in the process of being fully refurbished in the workshop. Having three Jumbos currently operational means that at any given time a Jumbo is operating on each extension of the main decline whilst the other is being serviced in the Company workshop;

- A significant upgrade of the mine ventilation system including the purchase and installation of a 500 horsepower exhaust fan;

- Additional investment to the mine pumping systems;

- The purchase of two new motors to refurbish two of the Company's underground loaders; and

- The employment of two underground mine decline specialists from the United States and an experienced underground mine super intendant from Chile.

The Company has experienced frequent disruptions to the mine power supply in the current year which has, and continues to, cause delays to development. Notwithstanding this, the Company has been able to advance the two extensions of the main decline at an approximate rate of 8 m per day in aggregate.

The power supply disruptions are a result of the inconsistency of the voltage supplied from the main power grid which causes the motors on pumps and other underground equipment to burn-out. The national electricity provider is in the process of upgrading the local infrastructure which is expected to reduce these disruptions in the future, however the Company is taking steps to mitigate these disruptions in the nearer term, including the installation of additional backup generators and the installation of an underground transformer.

Zaruma Plant Operations Update

The Zaruma Processing Plant operated efficiently during the three months ending March 31, 2015, recovering an average of 92.8% of gold contained in the material processed. Recent and ongoing investments in the Plant include:

- The purchase of an additional crushing circuit to be used after the material goes through the current crushing circuit. While this does increase the overall crushing capacity, the main reason for the additions is the finer material delivered to the ball mills so as to decrease future wear on the ball mills;

- The ongoing construction of a new tailings management facility ("TMF"), which is on schedule to be completed in the third quarter of this year. Once complete the new TMF is designed to have capacity for at least five years of plant operations at which point it can be redesigned to provide additional capacity. The current TMF is expected to have sufficient capacity to be operated until the new TMF is complete.

Zaruma Gold Project Operating Results

	Three months ended				
	March 31, 2015	December 31 2014	September 30, 2014	June 30, 2014	March 31, 2014
Gold Revenue	$ 3,428,942	$ 9,931,423	$ 10,767,977	$ 5,809,173	$ 9,390,956
Gold sales (ounces)	2,777	8,122	8,466	4,531	7,237
Average realized price per ounce	$ 1,234	$ 1,223	$ 1,272	$ 1,282	$ 1,298
Mined material milled (tonnes)	24,344	23,571	23,324	37,065	16,898
Average grade (grams/tonne)	6.17	10.60	10.90	4.42	10.81
Average recovery (%)	92.8	94.5	94.5	90.4	94.7
Gold production (ounces)	4,481	7,585	7,723	4,761	5,558
Cash costs ($/oz Au)[a,b]	$ 1,484	$ 930	$ 846	$ 1,310	$ 919
Cash costs ($/tonne Au)[a,b]	$ 273	$ 299	$ 280	$ 168	$ 302
All-in sustaining cash cost ($/oz Au)[a,b]	$ 1,904	$ 1,303	$ 1,147	$ 1,686	$ 1,310

(a) Net of by-product credits
(b) Non-GAAP measure. See "Non-GAAP Measures" section of this MD&A

The difference between gold production and sales for the first the three months ended March 31, 2015 was the result of gold still being treated at the refinery before it was available for sale and dore being in transit from the mine site to the Canadian refiner as at March 31, 2015.

During the three months ended March 31, 2015 the company produced 4,481 ounces of gold from processing 24,344 tonnes of material with an average grade of 6.17 grams per tonne of gold ("g/t Au") compared to the three months ended March 31, 2014 when the company produced 5,558 ounces of gold from processing 16,898 tonnes of material with an average grade of 10.81 g/t Au.

The reallocation of the Company's focus and resources from the mining of resource grade material to development resulted in the decrease in the grade of the material mined in the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, the three months ended September 30, 2014 and the three months ended December 31, 2014 (the "Prior Quarters").

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

Cash costs per ounce and all-in sustaining cash costs per ounce for the three months ended March 31, 2015 were $1,484 and $1,904 respectively. The per ounce costs were adversely impacted by the grade of material being processed during the three months ended March 31, 2015 which meant approximately 5 tonnes of material needed to be mined and processed to produce one ounce of gold compared to approximately 3 tonnes of mined material for each of Prior Quarters. Cash costs per tonne of material processed of $273 per tonne for the three months ended March 31, 2015 was marginally less than the per tonne cash costs for the three months ended March 31, 2014 ($302 per tonne), September 30, 2014 ($280 per tonne) and December 31, 2014 ($299 per tonne).

In addition to the lower grade of mined material during the current quarter, cash costs per ounce and all-in sustaining cash costs per ounce were also impacted by a combination of a number of other factors, including:

- The Company has adopted a policy to expense any further development expenditure as it is incurred in respect of a mine property subsequent to the commencement of commercial production, unless substantial new future economic benefits are derived from such expenditure at which point it will be capitalized. As a result the significant costs of carrying out the decline development work in the current period was expensed and therefore included in the per ounce cost calculations; and

- The Company's operations consist of a large fixed cost proportion, with the actual cash expenditure not varying a great deal between periods.

Zaruma Gold Project Resource Estimate and Preliminary Economic Assessment

In the third quarter of 2014 the Company filed a technical report entitled "Independent Preliminary Assessment – Zaruma Gold Project – El Oro Province – Ecuador" dated September 17, 2014 (the "Zaruma Technical Report"), which contains a preliminary economic assessment ("PEA") based upon an updated mineral resource estimate on its Zaruma Project.

The Zaruma Technical Report was prepared by consulting mining engineer Mr. R.L. Procter BSc (Eng), MBA, MIMMM, CEng, and consulting geologists Mr. A.J. Maynard, BAppSc (Geol), MAIG, MAusIMM and Mr. P.A. Jones, BAppSc (Geol), MAIG, all of whom are independent "qualified persons" as defined by NI 43-101. The Zaruma Technical Report has been prepared in accordance with NI 43-101 and is available on the Company's website (www.dynastymining.com) and under the Company's profile on SEDAR (www.sedar.com).

The selected information presented herein is qualified in its entirety by, and should be read in conjunction with, the Technical Report.

Updated Resource Estimate

The Company's updated mineral resource estimate was calculated using data related to concessions that cover a relatively small section of the total concession area that makes up the Zaruma Project. Such additional area is considered by the authors of the Zaruma Technical Report to be highly prospective for additional mineralized veins, which may become the focus of future exploration work. Estimated mineral resources at the Zaruma Project as contained in the Zaruma Technical Report are as follows:

	Measured			Indicated			Inferred		
Location	**Tonnes (million)**	**Grade Au (g/t)**	**Contained Au (Ozs)**	**Tonnes (million)**	**Grade Au (g/t)**	**Contained Au (Ozs)**	**Tonnes (million)**	**Grade Au (g/t)**	**Contained Au (Ozs)**
Cabo de Hornos	1.30	13.99	585,000	0.86	12.46	343,000	3.0	12.30	1,201,000
Barbasco	0.19	11.05	66,000	0.09	10.81	33,000	0.3	12.13	128,000
Ayapamba	0.07	12.64	30,000	0.06	11.63	23,000	0.2	12.40	96,000
Vizcaya	0.03	8.40	8,000	0.02	8.40	6,000	0.1	8.40	23,000
Total	**1.59**	**13.48**	**689,000**	**1.03**	**12.18**	**405,000**	**3.7**	**12.2**	**1,448,000**

Notes: - Mineral resources that are not mineral reserves have not demonstrated economic viability.
- A cut-off grade of 2.06 Au g/t was used to derive the mineral resource estimate.

Updated Preliminary Economic Analysis

An updated PEA has been prepared based upon the updated mineral resource estimate. Highlights of the PEA as set out in the Zaruma Technical Report are as follows:

	Unit	Value
Gold Price Used	$/oz Au	1,300
Gold Recovered[1]	Au (oz)	1,081,108
Total Mined Resources (undiluted)[1]		
- Measured + Indicated	tonnes	2,590,000
- Inferred	tonnes	935,000
Operating Revenue	$M	1,459.5
Operating Cash Flow (EBITDA)	$M	682.5
Net Cash Flow (untaxed)	$M	653.4
Net Cash Flow (taxed)	$M	440.9
NPV[2] (untaxed)	$M	321.6
NPV[2] (taxed)	$M	218.2
Unit Operating Cost (untaxed)	$/oz Au	658
Unit Operating Cost (taxed)	$/oz Au	855

Notes:
1) It is assumed that 100% of the measured and indicated resource and 25% of the inferred resource is mined.
2) At 10% base case discount rate.

As required by NI 43-101, it should be noted that these evaluations are preliminary in nature and that the Inferred Mineral Resources in particular are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. As such there is no certainty that the PEA will be realised.

The Zaruma Project has sufficient measured and indicated mineral resources for a mine life of about 10.5 years. The Project also has available to it a significant inventory of inferred mineral resource (59% of all tonnes and 57% in gold content). Adding only 27% of the inferred mineral resource (equating to 25% of gold output) to the Zaruma Project's production schedule increases mine life to 15 years, which is considered by the authors of the Zaruma Technical Report to be a reasonable mine life period to assess the Project on a discounted cash flow basis. This is the base case evaluated for the PEA.

The inferred mineral resource is also assumed to be processed at the end of the mine's life (i.e. after all measured and indicated material has been treated), so it suffers the greatest discounted cash flow effect in the analysis.

Dynasty Goldfield Project

In the fourth quarter of 2014, the Company filed an updated technical report on the Dynasty Goldfield Project entitled "Technical Report - Dynasty Goldfield Project – Celica, Loja Province, Ecuador" dated October 22, 2014 (the "Dynasty Technical Report"). The Dynasty Technical Report was prepared by consulting geologist Mr. A.J. Maynard, BAppSc (Geol), MAIG, MAusIMM, who is an independent "qualified person" as defined by NI 43-101. The Dynasty Technical Report was prepared to address issues identified by the British Columbia Securities Commission as part of their previously announced review of the Company's disclosure. The Dynasty Technical Report is available on the Company's website (www.dynastymining.com) and under the Company's profile on SEDAR (www.sedar.com).

The selected information presented herein is qualified in its entirety by, and should be read in conjunction with, the Dynasty Technical Report.

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

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

Note: A cut-off grade of 2.0 Au g/t was used to derive the mineral resource estimate.

Since the Company acquired the Dynasty Goldfield Project in 2003 until 2007, when the Ecuadorian Government introduced an exploration moratorium, it carried out geological mapping, sampling, geophysical surveys and diamond drilling. These works resulted in the identification of high grade gold and silver vein systems in the Cerro Verde, Papayal and Trapichillo areas.

Although the Company has not conducted any significant exploration work on the Dynasty Goldfield Project since such time, changes in international reporting standards of mineral resources have required more rigour in QA/QC and data verification along with more sophisticated estimation methods. As a result, and due to the inclusion of additional veins in the current mineral resource estimate that were not included in prior block modelling, as well as applying a lower cut-off grade of 2.0 g/t, the Company revised its resource estimate including a reclassification of certain previously reported resources.

Jerusalem Gold Project

In the fourth quarter of 2014, the Company filed an updated technical report on the Jerusalem Gold Project entitled "Technical Report - Jerusalem Gold Project – Zamora Chinchipe, Ecuador" dated October 24, 2014 (the "Jerusalem Technical Report"). The Jerusalem Technical Report was prepared by consulting geologist Mr. A.J. Maynard, BAppSc (Geol), MAIG, MAusIMM, who is an independent "qualified person" as defined by NI 43-101. The Jerusalem Technical Report was prepared to address issues identified by the British Columbia Securities Commission as part of their previously announced review of the Company's disclosure. The Jerusalem Technical Report is available on the Company's website (www.dynastymining.com) and under the Company's profile on SEDAR (www.sedar.com).

The selected information presented herein is qualified in its entirety by, and should be read in conjunction with, the Jerusalem Technical Report.
The updated mineral resource estimate for the Jerusalem Gold Project is as follows:

Category	Tonnes (Thousands)	Au (g/t)	Ag (g/t)	Contained Au (1,000 ozs)	Contained Ag (1,000 ozs)
Measured	379	14.2	76	173	926
Indicated	576	13.5	81	249	1,495
Total Measured + Indicated	956	13.8	79	422	2,421
Inferred	1,775	15.0	98	856	5,569

Note: A cut-off grade of 2.0 Au g/t was used to derive the mineral resource estimate.

The Company undertook extensive exploration on the Jerusalem Gold Project since it acquired the concession rights in 2003 through to 2007. This work mainly involved surface mapping, trenching and underground mine sampling with the aim of extending known vein systems and locating new veins and mineralized systems. The Company's exploration efforts resulted in extending the strike length of several known veins and locating new veins in previously under-explored areas.

Although the Company has not conducted any significant exploration work on the Jerusalem Project since such time, changes in international reporting standards of mineral resources have required more rigour in QA/QC and data verification along with more sophisticated estimation methods. As a result, and due to the application of a lower cut-off grade of 2.0 Au g/t, the Company revised its mineral resource estimate, including a reclassification of certain previously reported resources.
It has also been assumed that the previous resource estimate has also been impacted by artisanal mining. As previously disclosed in the Company's public filings, during fiscal 2012 a group of informal miners set up camps and are continuing to conduct artisanal mining operations at the Jerusalem Gold Project without the Company's permission. To the Company's knowledge, such informal mining to date has been near surface and as such it was considered a reasonable conservative assumption by the author of the Jerusalem Technical Report to exclude the first 30 m from the surface from the resource calculation. 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.

Results of Operations

The table below highlights the results of operations for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
OPERATING REVENUES	$ 3,726,236	$ 9,677,584
OPERATING COSTS (Note 4)		
Mining and processing	5,599,126	5,912,688
Royalties	154,646	373,366
Depreciation and depletion	910,200	1,105,450
	6,663,972	7,391,504
EARNINGS (LOSS) FROM MINE OPERATIONS	**(2,937,736)**	**2,286,080**
EXPENSES		
Corporate administration (Note 5)	1,128,842	1,113,800
Stock-based compensation (Note 11)	17,551	95,327
	1,146,393	1,209,127
EARNINGS (LOSS) BEFORE INCOME TAXES	**(4,084,129)**	**1,076,953**
INCOME TAXES		
Current tax expense	-	27,565
NET EARNINGS / (LOSS) AND COMPREHENSIVE EARNINGS / (LOSS) FOR THE PERIOD	**$ (4,084,129)**	**$ 1,049,388**
EARNINGS / (LOSS) PER SHARE		
- Basic	$ (0.10)	$ 0.02
- Diluted	$ (0.10)	$ 0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
- Basic	42,461,083	42,461,083
- Diluted	42,461,083	43,108,953

Revenue and gold and silver sold

The table below summarizes the Company's revenues and gold and silver sold for the three months ended March 31, 2015 and 2014:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenue	$ 3,726,236	$ 9,677,584
Gold Sales		
Gold sales (ounces)	2,777	7,237
Gross proceeds from all gold sales	$ 3,428,947	$ 9,390,956
Realized price per ounce	$ 1,234	$ 1,298
Silver Sales		
Silver sales	17,235	14,218
Gross proceeds from all silver sales	$ 297,289	$ 286,628
Realized price per ounce	$ 17.25	$ 20.16

Operating Costs

The table below summarizes the Company's operating costs for the three months ended March 31, 2015, December 31, 2014, September 30, 2014, June 30, 2014 and March 31, 2014:

	For the three months ended March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Mining and processing					
Changes in inventories	$ (1,348,781)	$ (414,433)	$ 548,212	$ 196,028	$ 520,408
Consumables	2,043,165	1,882,937	1,812,115	2,369,420	1,699,340
Employee participation taxes	-	(276,302)	383,831	-	55,130
Equipment maintenance	720,095	548,500	599,488	567,428	605,726
Other mining and processing costs	632,063	668,403	544,329	451,980	553,427
Rentals	684,360	978,516	719,452	463,452	369,235
Utilities	391,144	655,620	498,662	418,394	281,263
Salaries and benefits	2,477,080	2,896,828	2,313,698	2,155,411	1,828,159
Total mining and processing	5,599,126	6,940,069	7,419,787	6,622,119	5,912,688
Royalties	154,646	391,300	484,450	379,238	373,366
Depreciation and depletion	910,200	1,127,804	1,138,215	1,215,739	1,105,450
Total operating costs	**$ 6,663,972**	**$ 8,459,173**	**$ 9,042,452**	**$ 8,217,096**	**$ 7,391,504**

Salaries and benefits accounted for one of the largest individual direct operating costs. The Company currently has in excess of 600 employees which has increased since the three months ended March 31, 2015 when there was approximately 500 employees. The salaries and benefits expense has increase in line with the employee increase.

Consumables expense relates to the supplies required to carry out mining and plant operations, with the largest expense made on items such as drill steels and explosives for mining operations and cyanide and steel balls for the plant operations. The increase in consumable expense for the three months ended March 31, 2015 compared to the comparative period last year, and recent quarters, is a result of the increased need for mining consumables for the ongoing development of the Cabo de

Hornos declines.

The significant portion of the rental expense relates to the cost of transporting material from the mine to the plant since rather than acquiring trucks the Company determined it more economical at this time to contract out this service. The increased in costs in the three months ended March 31, 2015 compared to the comparative period last year related to the need to transport additional material out of the mine as part of the ongoing decline development and the transport of additional material during the construction of the Tailing Management Facility. The Company also rents other items of equipment such as pumps, generators and compressors when needed.

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

The Company maintains all mining equipment in house and currently employs approximately 30 mechanics that carry out maintenance and refurbishment work of the Company's fleet. The increase in equipment maintenance expenditure for the three months ended March 31, 2015 compare to the three months ended March 31, 2014 is the result of expenditure to refurbish some of the Company`s underground loaders and a other items.

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

For the three months ended March 31, 2015, amortization of mining equipment totaled $0.3 million and amortization of the processing plant totaled $0.4 million compared to amortization of mining equipment of $0.4 million and amortization of the processing plant of $0.4 million for the three months ended March 31, 2015

Capitalized mine development costs for the Zaruma mine are being depleted on a units-of-production basis over the total tonnage contained in the measured and indicated resource. This resulted in a charge of $0.3 million relating to the 24,344 tonnes mined in the three months ended March 31, 2015. The Company has adopted a policy to expense any further development expenditure as it is incurred in respect of a mine property subsequent to the commencement of commercial production, unless substantial new future economic benefits are derived from such expenditure at which point it will be capitalized. No mine development costs were capitalized for the three months ending March 31, 2015.

Expenses

The table below summarizes the Company's expenses for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
Amortization	$ 32,296	$ 47,852
Insurance	88,389	61,182
Office and general	385,348	300,792
Other	190,352	209,138
Professional fees	174,805	239,791
Salaries and management fees	257,652	255,045
Total corporate administration	**$ 1,128,842**	**$ 1,113,800**

Excluding non-cash-based deductions, corporate administration expenses for the year ended December 31, 2014 increased by $30,600.

Summary of Quarterly Results

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

	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Revenues	$ 3,726,236	$10,232,784	$ 11,104,445	$ 5,999,302
Net (loss) earnings	$ (4,084,129)(1)	$ (731,772)(2)	$ 666,089(3)	$(3,174,239)(4)
Basic and Diluted (loss) earnings per share	$ (0.10)	$ (0.02)	$ 0.02	$ (0.07)

	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenues	$ 9,677,584	$ 15,937,132	$ -	$ -
Net earnings (loss)	$ 1,049,388(5)	$ 2,826,456(6)	$(995,933)(7)	$(1,101,574)(8)
Basic and Diluted earnings (loss) per share	$ 0.02	$ 0.07	$ (0.02)	$ (0.03)

(1) The Company's earnings during this period included non-cash deductions of $17,511 and $942,496 for stock-based compensation, in connection with the granting of 1,678,000 options and with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

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

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

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

(5) The Company's earnings during this period included non-cash deductions of $95,327 and $1,153,302 for stock-based compensation, in connection with the granting of 623,500 options and with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(6) The Company's earnings during this period included non-cash deductions of $22,419 and $1,671,959 for stock-based compensation, in connection with the vesting of certain options previously granted, and amortization, depletion and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(7) The Company's loss during this period included non-cash deductions of $385,597 and $78,053 for stock-based compensation, in connection with the granting of 1,490,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(8) The Company's loss during this period included non-cash deductions of $(6,747) and $84,965 for stock-based compensation, in connection with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

Capital Expenditures

Exploration and Evaluation Properties

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

During the three months ended March 31, 2015, the Company spent a total of $1,006,727 in connection with the exploration and maintenance of its mineral properties, compared to $905,326 for the year ended December 31, 2013.

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

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2014	$ 13,519,430	$ 1,807,439	$ 170,169	$ 15,497,038
Costs				
Camp supplies and field costs	2,298	-	-	2,298
Geological consulting	61,672	5,250	-	66,922
Mineral concession rights	888,890	1,991	-	890,881
Project administration	33,259	7,132	-	40,391
Travel and related costs	6,235	-	-	6,235
Additions for the year	992,354	14,373	-	1,006,727
Balance, March 31, 2015	$ 14,511,784	$ 1,821,812	$ 170,169	$ 16,503,765

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

Mine Properties, Plant and Equipment

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

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

	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	-	1,225,688	-	1,225,688
Disposals	-	-	-	-
Balance as at March 31, 2015	**$ 30,694,365**	**$ 35,148,893**	**$ 3,292,747**	**$ 69,136,005**
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	258,384	821,255	7,822	1,087,461
Disposals	-	-	-	-
Balance as at March 31, 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 March 31, 2015	**$ 28,781,647**	**$ 15,364,360**	**$ 3,066,134**	**$ 47,212,141**

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.

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

Financial Condition, Liquidity and Capital Resources

As at March 31, 2015 the Company had cash resources of $0.4 million and a working capital deficit (current assets less current liabilities) of $3.3 million compared to cash resources of $3.5 million and a working capital surplus of $1.3 million as at December 31, 2014.

Included within working capital is a $2 million loan (the `Loan`) with Valorium International Inc. ("Valorium"), a company managed by the Company's Chief Executive Officer and President. The Loan is payable upon demand, is non-interest bearing and is not convertible, exchangeable or repayable into equity or voting securities of the Company. The Loan is secured by the Company's equipment, inventory, accounts receivable and other intangibles. The Loan is included in short term loans as at March 31, 2105.

As at the date of this report the Company has no material contractual capital commitments, however the Company plans to spend most of its remaining working capital and earnings from operations on the continued development of portals to better access the resources and the associated expansion costs and working capital needed at the Zaruma Gold Project, and, to the extent that additional funds are available, on the exploration and development of its other mineral properties. The Company's budgeted expenditures may increase or decrease depending upon several factors, some of which are not within the control of management, including the future availability of capital.

Management reviews each of the Company's properties periodically and amends the Company's exploration and development plans and budgets, accordingly. The Company is still in the early stages of commercial production and is continuing to develop the mines to increase production. Therefore, 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 generate sufficient cash flow from the sale of precious metals in the future or secure additional working capital as required, neither of which can be assured (see "Critical Risk Factors" section of this MD&A).

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended March 31, 2015 and 2014:

a) paid management fees of $105,000 (2014 - $105,000) 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 prepaid expenses at March 31, 2015 is $28,437 (December 31, 2014 - $25,248 due) of prepaid management fees made 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.

Ecuador Mining Legislation

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

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

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

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

Non-GAAP measures

Cash costs per ounce and per tonne

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

The following tables present a reconciliation of cash costs per tonne of processed ore and cash costs per ounce of gold to the cost of sales in the consolidated financial statements for the three months ended March 31, 2015, December 31, 2014, September 30, 2014 June 30, 2014 and March 31, 2014: :

	Three months ended				
	March 31, 2015	December 31 2014	September 30, 2014	June 30, 2014	March 31, 2014
Operating Expenditures	$ 6,663,972	$ 8,459,173	$ 9,042,452	$ 8,217,097	$ 7,391,504
Change in inventory	1,348,781	414,433	(548,212)	(196,028)	(520,408)
Depletion and depreciation	(910,200)	(1,127,804)	(1,138,215)	(1,215,739)	(1,105,450)
Royalties	(154,646)	(391,300)	(484,450)	(379,238)	(373,366)
By-product credits	(297,289)	(301,361)	(336,468)	(190,129)	(286,628)
Total cash costs	6,650,618	7,053,142	6,535,107	6,235,963	5,105,652
Gold production (ounces)	4,481	7,585	7,723	4,761	5,558
Cash costs (US$/oz Au)[a,b]	$ 1,484	$ 930	$ 846	$ 1,310	$ 919
Cash costs (US$/tonne Au)[a,b]	$ 273	$ 299	$ 280	$ 168	$ 302

All-in cash costs per ounce and per tonne

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

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

The Company has conformed its all-in sustaining definition to the measure as set out in the guidance note released by the World Gold Council ("WGC") (a non-regulatory market development organization for the gold industry whose members comprise global senior gold mining companies). "All-in sustaining costs" are intended to provide additional information only and do not have standardized definitions under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Although the WGC has published a standardized definition, companies may calculate these measures differently. "All-in sustaining costs" include total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's by-product cash costs. Additionally, the Company includes sustaining capital expenditures, corporate selling, general and administrative expenses, and exploration expenditures in this measure. The Company believes that this measure represents the total costs of producing gold from current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of gold production from current operations, new project capital is not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included. The Company reports this measure on a gold ounces sold basis. The following tables provide a reconciliation of all-in sustaining costs per ounce to the consolidated financial statements for the three months ended March 31, 2015, December 31, 2014, September 30, 2014 June 30, 2014 and March 31, 2014:

	Three months ended				
	March 31, 2015	December 31 2014	September 30, 2014	June 30, 2014	March 31, 2014
Total cash costs	$ 6,650,618	$ 7,053,142	$ 6,535,107	$ 6,235,963	$ 5,105,652
Royalties	154,646	391,300	484,450	379,238	373,366
Corporate administration	1,146,393	2,073,947	1,345,392	956,445	1,209,127
Capital expenditure	241,450	(38,390)	143,370	109,563	254,630
Exploration expenditure	338,566	400,317	347,251	345,325	336,179
Total cash costs	8,531,677	9,880,316	8,855,571	8,026,534	7,278,954
Gold production (ounces)	4,481	7,585	7,723	4,761	5,558
All in sustaining cash costs (US$/oz Au)	$ 1,904	$ 1,303	$ 1,147	$ 1,686	$ 1,310

Critical Accounting Estimates and Policies

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

Revenue recognition

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

Pre-commercial sales

Pre-commercial sales from the sale of gold and silver will be recognized when the quantity of metal sold and the sales price are fixed, title hs passed to the buyer and collection is reasonably assured.

Earnings (loss) per share

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

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

Inventory

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

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

Mineral Properties, Plant and Equipment

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

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

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

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

Once commercial production has been achieved at a project exploration and development expenditure is amortized on a unit-of-production basis over the measured and indicated resources expected to be extracted economically, and included as part of the production cost.
When further development expenditure is incurred in respect of a mine property subsequent to the commencement of commercial production, such expenditure is capitalized as part of the mine property only when substantial new future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

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

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

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.

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.

Estimates, judgments, risks and uncertainties

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

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:

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

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

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

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

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

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

Stock-based compensation

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

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

New accounting standards and interpretations

The following standards and amendments to existing standards have been adopted by the Company commencing January 1, 2014 and have little or no impact on the Company's financial statements:

IFRIC 21 Levies ("IFRIC 21"), sets out the accounting for an obligation to pay a levy that is not income tax. The Interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

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.

Critical Risk Factors

The exploration and development of mineral deposits involves certain significant risks not within the control of management. A comprehensive discussion of risk factors included in the Company's Annual Information Form dated March 31, 2015, available on SEDAR at www.sedar.com. Those as well as the following additional risks may impact the business of the Company.

Financial Instruments Risks

Financial assets and liabilities

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

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

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

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.

Additional Information

Securities Issued During the Period
During the three months ended March 31, 2015, the Company issued no incentive stock options to purchase common shares.

Securities Cancelled During the Period
During the three months ended March 31, 2015, the Company cancelled previously issued options to purchase 50,000 common shares at CAD$5.45 each upon their expiry and cancelled previously issued options to purchase 20,000 common shares at CAD$4.07 each upon their expiry.

Subsequent to March 31, 2015 the Company issued options to purchase 125,000 common shares at CAD$0.79 each and cancelled previously issued options to purchase 20,000 common shares at CAD$3.95 each upon their expiry.

Securities Issued At End Of Period
On March 31, 2015, the Company had 42,461,083 common shares issued and outstanding. There are 42,461,083 common shares issued and outstanding as at the date of this report.

There are outstanding incentive stock options to purchase 5,762,800 common shares of the Company as at the date of this report, as follows:

Number	Exercise Price	Expiry Date
10,300	$ 4.12	September 21, 2015
20,000	$ 4.53	December 3, 2015
127,000	$ 3.63	January 28, 2016
108,000	$ 3.32	May 17, 2016
10,000	$ 2.85	June 27, 2016
31,000	$ 2.94	July 25, 2016
3,000	$ 3.00	September 8, 2016
1,227,000	$ 3.07	December 1, 2016
55,000	$ 3.00	February 7, 2017
150,000	$ 4.50	February 23, 2017
45,000	$ 3.00	September 17, 2017
1,490,000	$ 0.64	July 16, 2018
623,500	$ 0.89	January 1, 2019
35,000	$ 1.48	June 19, 2019
25,000	$ 1.61	July 28, 2019
1,678,000	$ 0.92	November 21, 2019
125,000	$ 0.79	April 8, 2020
5,762,800		

Management's Report on Disclosure controls and procedures
Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2015.

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

There have been no changes in the Company's internal control over financial reporting during the three months ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Directors and Officers

Directors:	Officers:
Robert Washer	Robert Washer - President and Chief Executive Officer
Leonard Clough	Nicholas Furber - Chief Financial Officer
Mark Bailey	
Brian Speechly	
Edison Lopez Viteri	

Contact Person

Naomi Nemeth, Investor Relations
Toronto Office: 1 416 366 3881
Toll Free: 1 888-735-3881 (North America only)
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Outlook

In the near term, the Company will continue to develop the mine at Zaruma with the objective of reaching a steady state mining and processing target of the annual equivalent of 300,000 tonnes of material per annum. The Company will also continue to work to define geological trends and develop suitable targets for drilling, and drill those targets, on its Zaruma Project.

The Company may seek opportunities in the future to form joint ventures and evaluate investment opportunities both in Ecuador and elsewhere. As a mineral exploration and development company, the future liquidity of the Company will be affected principally by the size of its exploration and development expenditures and by its ability to raise capital. The Company may have to adjust its exploration and development programs from time to time depending upon the availability of capital.