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

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars, unless otherwise noted)

DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dynasty Metals & Mining Inc.

We have audited the accompanying consolidated financial statements of Dynasty Metals & Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dynasty Metals & Mining Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

March 30, 2016

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31,
Expressed in United States dollars unless otherwise noted

	2015	2014
OPERATING REVENUES	$ 21,049,517	$ 37,014,115
OPERATING COSTS (Note 4)		
Mining and processing	24,948,674	26,894,664
Royalties	1,135,396	1,628,354
Depreciation and depletion	3,916,227	4,513,750
	30,000,297	33,036,768
EARNINGS (LOSS) FROM MINE OPERATIONS	**(8,950,780)**	**3,977,347**
EXPENSES		
Corporate administration (Note 5)	3,973,048	4,512,614
Stock-based compensation (Note 12)	92,244	880,195
	4,065,292	5,392,809
LOSS FROM OPERATIONS	**(13,016,072)**	**(1,415,462)**
OTHER EXPENSES		
Finance expense (Note 6)	489,557	98,837
Impairment of long lived assets (Note 9)	2,016,418	-
Write-down of abandoned properties (Note 9)	455,729	-
Foreign exchange loss	182,819	166,723
	3,144,523	265,560
LOSS BEFORE INCOME TAXES	**(16,160,595)**	**(1,681,022)**
INCOME TAXES (Note 15)		
Current tax expense	327,800	536,326
Unrecoverable tax pre-payments	507,305	513,186
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**$ (16,995,700)**	**$ (2,730,534)**
BASIC AND DILUTED LOSS PER SHARE	$ (0.39)	$ (0.06)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	43,833,725	42,461,083

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

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

As at	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash	$ 448,278	$ 3,449,944
Receivables	67,125	21,004
Prepaid expenses	984,008	619,266
Inventory (Note 7)	3,259,553	4,202,349
	4,758,964	8,292,563
Advances, deposits and warranties	158,514	306,348
Mine properties, plant and equipment (Note 8)	42,419,009	47,073,914
Exploration and evaluation properties (Note 9)	14,421,229	15,497,038
	$ 61,757,716	$ 71,169,863
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 9,338,276	$ 5,227,981
Taxes payable	528,512	746,608
Short term loans (Note 10)	3,627,435	1,000,000
	13,494,223	6,974,589
Derivative Liability (Note 10)	24,177	-
Long term loans (Note 10)	1,233,333	-
Provision for closure and restoration (Note 11)	343,594	2,046,799
	15,095,327	9,021,388
Shareholders' equity		
Capital stock (Note 12)	90,476,735	89,059,365
Contributed surplus (Note 12)	14,913,825	14,821,581
Deficit	(58,728,171)	(41,732,471)
	46,662,389	62,148,475
	$ 61,757,716	$ 71,169,863

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

On behalf of the Board:

"Robert Washer" Director "Leonard Clough" Director

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, 2013	42,461,083	$ 89,059,365	$ (39,001,937)	$ 13,941,386	$ 63,998,814
Net loss for the year	-	-	(2,730,534)	-	(2,730,534)
Stock-based compensation	-	-	-	880,195	880,195
Balance at December 31, 2014	42,461,083	89,059,365	(41,732,471)	14,821,581	62,148,475
Net loss for the year	-	-	(16,995,700)	-	(16,995,700)
Share issuance for debt	4,245,885	1,439,500	-	-	1,439,500
Share issuance costs	-	(22,130)	-	-	(22,130)
Stock-based compensation	-	-	-	92,244	92,244
Balance at December 31, 2015	46,706,968	$ 90,476,735	$ (58,728,171)	$ 14,913,825	$ 46,662,389

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,
Expressed in United States dollars unless otherwise noted

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (16,995,700)	$ (2,730,534)
Items not affecting cash:		
Depreciation and depletion	4,122,181	4,778,358
Stock-based compensation	92,244	880,195
Gain on fair value of derivative liability	(80,000)	-
Write off of abandoned properties	455,729	-
Impairment of long lived assets	2,016,418	-
Changes in non-cash working capital items:		
Increase in receivables	(46,121)	(839)
Increase in prepaid expenses	(364,742)	(62,886)
(Increase) decrease in inventory	2,282,568	(315,092)
Increase (decrease) in accounts payable and income taxes payable	2,724,121	(1,692,387)
Net cash provided by (used in) operating activities	(5,793,302)	856,815
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on exploration and evaluation properties	(1,395,768)	(1,429,073)
Expenditures on mine properties, plant and equipment	(503,799)	(758,707)
Net cash used in investing activities	(1,899,567)	(2,187,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of loans	5,000,000	-
Repayment of short term debt	(166,667)	(132,591)
Debt transaction and share issuance costs	(142,130)	-
Net cash provided by (used in) financing activities	4,691,203	(132,591)
Change in cash for the year	(3,001,666)	(1,463,556)
Cash, beginning of year	3,449,944	4,913,500
Cash, end of year	$ 448,278	$ 3,449,944
Cash paid during the year for interest	$ 338,411	$ 14,617
Cash paid during the year for income taxes	$ 328,829	$ 1,126,020
Cash received during the year 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.

As at December 31, 2015 the Company's accounts payable includes some balances which are significantly overdue, including approximately $2 million in aggregate of income taxes, royalties, IVA and other withholding taxes owed to the Ecuador Government, who the Company is currently negotiating with to defer these amounts.

During fiscal 2015 the Company incurred a loss and comprehensive loss of $16,995,700 and as at December 31, 2015 the Company has a working capital deficit of $8,735,259. Continuing operations are dependent upon the Company's ability to maintain profitable operations and generate sufficient cash flow from the sale of precious metals or secure additional working capital from external sources as required, neither of which is assured. The recoverability of the exploration and evaluation assets is dependent on the existence of economically recoverable reserves and the ability of the Company to obtain necessary financing to initiate and complete development.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Expressed in United States dollars unless otherwise noted

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

As mentioned above, there are conditions and matters which indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern. In the event the Company is unable to produce sufficient precious metals for sale in the future or secure additional working capital from debt or equity financings or through the profitable sale of capital assets or the Company cannot reach agreement with the Ecuadorean Government to defer the payment of amounts owed, these consolidated financial statements may require adjustments relating to the recoverability and classification of recorded assets and liabilities.

2. BASIS OF PRESENTATION

These consolidated financial have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies, methods of computation and presentation applied in these consolidated financial statement are consistent with those of the previous financial year. These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. The Board of Directors has approved the audited consolidated financial statements on March 30, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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

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

Foreign currency translation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

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

Reclassification of prior year

There have been certain immaterial reclassifications in the December 31, 2014 Consolidated Statement of Loss and Comprehensive Loss as well as related notes to the financial statements for comparative purposes.

Earnings (loss) per share

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

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

Inventory

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

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

Mineral Properties, Plant and Equipment

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Development properties (cont'd)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Stock-based compensation (cont'd)

volatility. The expected term of options granted is determined based on historical data on the average hold period before exercise, expiry or cancellation. Expected volatility is estimated with reference to the historical volatility of the share price of the Company.

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

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

Impairment on non-financial assets

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

Income taxes

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

Financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial assets (cont'd)

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

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

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

Financial liabilities

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

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

Segment reporting

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

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 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 the 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 as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Estimates, judgments, risks and uncertainties (cont'd)

Mineral resource estimation (cont'd)

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.

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.

Expressed in United States dollars unless otherwise noted

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting standards and interpretations

The following new standards and amendments to existing standards were not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements:

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

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

IFRS 16 – Leases, was issued in January 2016 with the objective to recognize all leases on the balance sheet. IFRS 16 requires lessees to recognize a "right of use" asset and a lease liability calculated using a prescribed methodology. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. Early adoption is permitted provided that IFRS 15, Revenue from Contracts with Customers, is also adopted. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

4. OPERATING COSTS

	December 31, 2015	December 31, 2014
Mining and processing		
Changes in inventories	$ 201,721	$ 850,215
Consumables	7,183,388	7,763,819
Employee participation taxes	-	162,659
Equipment maintenance	1,662,884	2,321,142
Other mining and processing costs	2,312,944	2,218,139
Rentals	2,243,311	2,530,655
Utilities	2,344,291	1,853,939
Salaries and benefits	9,000,135	9,194,096
Total mining and processing	24,948,674	26,894,664
Royalties	1,135,396	1,628,354
Depreciation and depletion	3,916,227	4,513,750
Total operating costs	**$ 30,000,297**	**$ 33,036,768**

Expressed in United States dollars unless otherwise noted

5. CORPORATE ADMINISTRATION

	December 31, 2015	December 31, 2014
Amortization	$ 124,236	$ 191,150
Insurance	260,697	267,717
Office and general	1,328,344	1,732,217
Other	701,097	594,515
Professional fees	562,120	643,147
Salaries and management fees	996,554	1,083,868
Total corporate administration	**$ 3,973,048**	**$ 4,512,614**

6. FINANCE EXPENSE

	December 31, 2015	December 31, 2014
Accretion of restoration provision	$ 81,716	$ 73,458
Interest and accretion on debt	429,492	-
Gain on fair value of derivative liability (Note 10)	(80,000)	-
Bank charges and other fees	58,349	25,379
Total finance expense	**$ 489,557**	**$ 98,837**

7. INVENTORY

	December 31, 2015	December 31, 2014
Stockpiled mined material	$ 201,043	$ 783,393
Gold and silver in-process	596,433	98,506
Gold and silver dore	146,226	263,060
	943,702	1,144,959
Materials and supplies	2,315,851	3,057,390
	$ 3,259,553	**$ 4,202,349**

Expressed in United States dollars unless otherwise noted

8. MINE PROPERTIES, PLANT AND EQUIPMENT

Net carrying costs at December 31, 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	-	1,268,006	-	1,268,006
Change in estimate (Note 11)	(847,102)	(1,035,346)	-	(1,882,448)
Balance as at December 31, 2015	**$ 29,847,263**	**$ 34,155,865**	**$ 3,292,747**	**$ 67,295,875**
Accumulated amortization				
Balance as at December 31, 2013	$ 358,555	$ 15,715,481	$ 187,504	$ 16,261,540
Amortization, depreciation and depletion	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, depreciation and depletion	1,244,954	2,764,222	31,287	4,040,463
Disposals	-	-	-	-
Balance as at December 31, 2015	**$ 2,899,288**	**$ 21,727,500**	**$ 250,078**	**$ 24,876,866**
Net book value				
At December 31, 2014	$ 29,040,031	$ 14,959,927	$ 3,073,956	$ 47,073,914
At December 31, 2015	**$ 26,947,975**	**$ 12,428,365**	**$ 3,042,669**	**$ 42,419,009**

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 December 31, 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.

Expressed in United States dollars unless otherwise noted

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	$ 12,257,469	$ 1,640,327	$ 170,169	$ 14,067,965
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	59,898	-	-	59,898
Additions for the year	1,261,961	167,112	-	1,429,073
Balance, December 31, 2014	$ 13,519,430	$ 1,807,439	$ 170,169	$ 15,497,038

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

Dynasty Project

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

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

Expressed in United States dollars unless otherwise noted

9. EXPLORATION AND EVALUATION PROPERTIES (cont'd)

Dynasty Project (cont'd)

The Company abandoned several concessions located at the Dynasty Project during the year ended December 31, 2015. These concessions were not significant to the Company's future exploration and development plans. Costs that had been previously capitalized relating to these concessions amounting to $455,729 were written-off during fiscal 2015.

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 has and will continue to take all necessary and available steps to remove such miners and cease their illegal activities, there is no assurance that such steps will be successful and the illegal activities of these miners could cause environmental damage or other damage to our properties or personal injury or death, for which the Company could potentially be held responsible, all of which could have an adverse impact on future results of operations and financial condition.

As at December 31, 2015 the Company determined that under the guidance of *IFRS 6 "Exploration for and evaluation of mineral properties"* there were indications that the Jerusalem project was impaired and was written down to a nominal value. The indication of impairment under IFRS 6 were principally that, other than renewing the annual concession fees, the Company had no recent or budgeted exploration program for the property. The Company does however currently intend to continue to pay the annual concession fees and hold Jerusalem in its property portfolio.

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, cash and shares	-	(166,667)	(1,439,500)	(1,606,167)
Less:				
- Unamortised transaction costs	(133,065)	-	-	(133,065)
- Long term portion	(1,000,000)	(233,333)	-	(1,233,333)
Short term loans, December 31, 2015	$ 2,866,935	$ 200,000	$ 560,500	$ 3,627,435

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

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 $4,000,000 maturing on May 31, 2016.

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

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

On October 30, 2015, the Company and Vertex amended the terms of the Notes. Under the amended terms, repayments of principal under the promissory notes issued pursuant to the financing have been deferred by nine months such that principal is now repayable by the Company in eight equal monthly installments commencing on July 29, 2016 and ending on February 28, 2017. Additionally, in consideration for the deferral, the expiry date of the 600,000 warrants has been extended from June 22, 2017 to March 22, 2018. The original exercise price of the Warrants has also been amended from CAD$0.73 to CAD$0.31 per share. Other terms of the original Note Agreement remain unchanged.

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

On December 31, 2015 the Company revalued the warrants using the Black Scholes pricing model assuming a risk-free rate of 0.5%, expected life of 2.0 years and an annualized volatility of 68.42%. The resulting revaluation of $24,177 led to a gain on the valuation of the fair value liability of $80,000.

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 previously entered into an interest free promissory notes with a principal amount of $2,000,000 with corporations represented by the Company's President and Chief Executive Officer.

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

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

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 December 31, 2015 to be $343,594 (2014 - 2,046,799). The present value of the future reclamation obligation assumes an inflation rate of 2.5% (2014 – 2.5%) and a discount rate of 16.0% (2014 – 4%), an undiscounted amount to settle the obligation of $2,161,089 and the commencement of reclamation activities after the life of the mine, which is estimated at 14 years.

Effective December 31, 2015 the Company changed the estimate of the discount rate to be used when calculating the present value of future reclamation obligations. The discount rate was increased from 4% as at December 31, 2014 to 16% to more accurately reflect the Company's cost of capital. This resulted in a $1,882,448 decrease in the present value of the future reclamation obligation which was offset with a corresponding decrease in the value of the future reclamation obligation capitalizes in Mine Properties, Plant and Equipment.

	December 31 2015	December 31 2014
Balance, beginning of year	$ 2,046,799	$ 1,845,452
Liabilities incurred in the year	97,527	127,890
Accretion expense	81,716	73,457
Change in estimate	(1,882,448)	-
Balance, end of year	$ 343,594	$ 2,046,799

12. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized and issued shares
At December 31, 2015, the Company had an unlimited number of authorized common shares and 46,706,968 shares outstanding (2014 – 42,461,083). All per share amounts below are in Canadian dollars (CAD) which, at December 31, 2015, is equivalent to 0.72254 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 $92,244 for the year ended December 31, 2015 (2014 - $880,195) with a corresponding credit to contributed surplus. The fair value of the stock options is estimated as at the date of the grant using the Black-Scholes pricing model assuming the following weighted average assumptions:

Expressed in United States dollars unless otherwise noted

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

Stock options and warrants (cont'd)

	2015	2014
Risk-free interest rate	0.57%	1.23%
Expected life	3.65 years	3.57 years
Annualized volatility	63.12%	63.94%
Pre-vest forfeiture rate	10.00%	10.00%
Dividend rate	0.00%	0.00%

During fiscal 2015, the Company granted 125,000 (2014 – 2,361,500) options with a fair value of $34,297 (2014 - $925,944), which is being recognized over the vesting periods of the options.

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

	Stock options	
	Number	**Weighted Average Exercise Price (CAD$)**
Balance, December 31, 2013	5,176,300	$ 3.19
Granted	2,361,500	0.93
Forfeited	(1,810,000)	5.13
Balance, December 31, 2014	5,727,800	1.64
Granted	125,000	0.79
Expired	(120,300)	4.70
Balance, December 31, 2015	5,732,500	$ 1.56

The following stock options were outstanding as at December 31, 2015:

	Options outstanding			Options exercisable	
Exercise price range	**Number of stock options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (CAD$)**	**Number of stock options exercisable**	**Weighted average exercise price (CAD$)**
$0.64 - $0.72	1,490,000	2.54	0.64	1,490,000	0.64
$0.72 - $0.91	748,500	3.22	0.88	353,417	0.88
$0.92 - $1.20	1,678,000	3.89	0.92	1,678,000	0.92
$1.21 - $3.20	1,431,000	1.05	3.00	1,401,000	3.03
$3.21 - $4.50	385,000	0.58	3.88	385,000	3.88
	5,732,500	2.52	1.56	5,307,417	1.61

Expressed in United States dollars unless otherwise noted

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

Stock options and warrants (cont'd)

The weighted average fair value per stock option granted during fiscal 2015 was $0.27 (2014 - $0.39) per option. As at December 31, 2015, the non-vested stock-based compensation expense not yet recognized was $34,049 which is to be recognized over the next 12.24 months.

During the year ended December 31, 2015 the Company granted 600,000 share purchase warrants with an exercise price of CAD$0.73 per warrant, expiring on June 22, 2017. In conjunction with the amendment to the term of the Promissory Notes held with Vertex on October 30, 2015 (see Note 10) the expiry date of the 600,000 Warrants has been extended to March 22, 2018. The original exercise price of the Warrants has also been amended from CAD$0.73 to CAD$0.31 per share. There were no share purchase warrants outstanding as at December 31, 2014.

Subsequent to December 31, 2015, 127,000 options to purchase common shares were cancelled upon their expiry.

13. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel include executive officers and directors of the Company. Compensation of the Company's key management personnel is comprised of the following:

	December 31 2015	December 31 2014
Executive salaries and short-term benefits(1)	$ 556,849	$ 578,407
Stock-based compensation	24,486	684,194
	$ 581,335	$ 1,262,601

(1) $54,600 and $105,000 of these expenses for the years ended December 31, 2015 and 2014, respectively, were capitalized and included in either mineral property, mines under construction or plant construction costs.

As at December 31, 2015 there was $221,087 due to (2014 - $25,248 due from) related parties included in accounts payable and accrued liabilities.

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2015, the Company:

a) Granted 600,000 warrants at a fair value of $69,035 as a derivative liability on the receipt of $4,000,000 in promissory notes. The Company later amended the terms of the warrants resulting in additional $35,142 associated with the derivative liability;
b) Issued 4,245,885 shares in settlement of $1,439,500 related party loans;
c) Accrued plant and equipment costs of $97,527 through the provision for closure and restoration;
d) Changed the estimate associated with the provision for closure and restoration costs by $1,882,448;
e) Acquired $600,000 in equipment through equipment loan;
f) Incurred capital expenditures of $145,859 through accounts payable; and
g) Accrued $30,570 in exploration and evaluation properties through accounts payable.

During the year ended December 31, 2014, acquired land at a cost of $80,000, incurred capital expenditures of $8,792 through accounts payable. In addition the Company accrued additional plant and equipment costs of $127,890 through the provision for closure and restoration.

Expressed in United States dollars unless otherwise noted

15. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanied consolidated statements of comprehensive loss is provided below:

	2015	2014
Loss before income taxes	$ (16,160,595)	$ (1,681,022)
Combined federal and provincial statutory income tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	$ (4,202,000)	$ (437,000)
Impact of different foreign statutory tax rates on earnings of subsidiaries	398,000	(86,000)
Non-deductible expenditures and non-taxable revenues	850,000	207,000
5% participation tax paid to Ecuador government	149,000	157,000
Change in unrecognized deductible temporary differences and other	3,640,000	1,208,000
Total income taxes	$ 835,000	$ 1,049,000

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

	2015	2014
Deferred tax assets (liabilities):		
Mine properties, plant and equipment	$ (1,606,000)	$ (1,652,000)
Non-capital losses	1,606,000	1,652,000
Net deferred tax liability	$ -	$ -

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

	2015	2014
Share issue costs	$ 6,000	$ -
Non-capital losses	4,583,000	4,555,000
Total	$ 4,589,000	$ 4,555,000

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

	2015	Expiry Date Range	2014	Expiry Date Range
Share issue costs	$ 24,000	2036 to 2039	$ -	N/A
Non-capital losses	19,710,000	2016 to 2035	18,556,000	2015 to 2034

16. CAPITAL DISCLOSURE

The Company's capital currently consists of common shares, options and warrants. As the Company is in the early stage production phase for the year ended December 31, 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 year ended December 31, 2015. The Company is subject to loan terms as described in Note 10.

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

Credit Risk

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

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

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

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

Interest Rate Risk

The Company maintains short-term deposits in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. The Company has interest bearing debt and may be subject to interest rate risk.

17. FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold and other commodity prices to determine the appropriate course of action to be taken by the Company.

18. SUBSEQUENT EVENT

Subsequent to December 31, 2015, the Company sold two mining concessions that were part of the Zaruma Project for $600,000. The first half of this amount was received upon signature of relevant agreement and the remaining portion will be received upon legal registration of the transaction. Both concessions are part of an area that the Company's management considers to be non-core claims.