



Dynacor Gold Mines Inc.

Condensed Interim Consolidated Financial Statements

As at March 31, 2019 and for the three-month periods ended
March 31, 2019 and 2018
(in US dollars)
(Unaudited)



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The unaudited condensed interim consolidated financial statements of Dynacor Gold Mines Inc. as at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018, have not been reviewed by the Company's external auditors.

Jean Martineau

Jean Martineau
President and Chief Executive Officer

Leonard Teoli

Leonard Teoli, CPA, CA
Vice President of finance and
Chief Financial Officer

Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in US dollars)

	As at March 31, 2019 \$	As at December 31, 2018 \$
ASSETS		
CURRENT ASSETS		
Cash (Note 5)	14,427,661	13,928,980
Accounts receivables (Note 6)	5,728,382	4,574,372
Inventories (Note 7)	4,493,036	6,169,196
Prepaid expenses and other assets	282,654	122,806
	<u>24,931,733</u>	<u>24,795,354</u>
NON-CURRENT ASSETS		
Property, plant and equipment (Note 8)	21,180,644	22,612,209
Right-of-use assets (Note 11)	1,874,392	-
Exploration and evaluation assets (Note 9)	18,624,640	18,536,420
Deferred tax assets	76,301	131,199
	<u>41,755,977</u>	<u>41,279,828</u>
TOTAL ASSETS	<u>66,687,710</u>	<u>66,075,182</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables (Note 10)	3,479,945	4,273,971
Current tax liabilities	389,196	389,477
Current portion of lease liabilities (Note 11)	660,034	436,973
	<u>4,529,175</u>	<u>5,100,421</u>
NON-CURRENT LIABILITIES		
Asset retirement obligations (Note 12)	3,780,347	3,778,010
Lease liabilities (Note 11)	1,000,540	310,716
	<u>4,780,887</u>	<u>4,088,726</u>
TOTAL LIABILITIES	<u>9,310,062</u>	<u>9,189,147</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 13 a))	20,792,408	20,958,860
Contributed surplus (Notes 13 b) and c))	3,350,430	3,333,246
Retained earnings	33,234,810	32,593,929
TOTAL SHAREHOLDERS' EQUITY	<u>57,377,648</u>	<u>56,886,035</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>66,687,710</u>	<u>66,075,182</u>

Commitments (Note 18)

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

Approved by the Board of Directors,

(s) Jean Martineau
Jean Martineau

(s) Roger Demers FCPA, FCA, ASC
Roger Demers FCPA, FCA, ASC

Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Unaudited)

For the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

	For the three-month periods ended	
	2019	March 31,
	\$	2018
	<u> </u>	<u> </u>
	\$	\$
Sales	22,918,730	26,590,260
Cost of sales (Note 15)	(20,129,263)	(22,966,355)
Gross operating margin	2,789,467	3,623,905
General and administrative expenses (Note 15)	(956,546)	(1,122,819)
Operating income	1,832,921	2,501,086
Financial expenses (Note 15)	(40,354)	(69,093)
Foreign exchange gain (loss)	(11,133)	(89,293)
Income before income taxes	1,781,434	2,342,700
Income taxes	(601,434)	(741,952)
Net income and comprehensive income	1,180,000	1,600,748
Weighted average number of outstanding common shares (Note 14)		
Basic	39,373,928	39,581,177
Diluted	39,724,625	40,042,749
Earnings per share (Note 14)		
Basic	\$0.03	\$0.04
Diluted	\$0.03	\$0.04

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

Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

For the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

	Share Capital \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance, January 1, 2019	20,958,860	3,333,246	32,593,929	56,886,035
Net income and comprehensive income for the period	-	-	1,180,000	1,180,000
	20,958,860	3,333,246	33,773,929	58,066,035
Share-based compensation expense (Note 13 b))	-	16,297	-	16,297
Share-based compensation capitalized to exploration and evaluation assets (Note 13 b))	-	887	-	887
Repurchase of common shares (Note 13 a) ii))	(166,452)	-	(245,689)	(412,141)
Dividends (Note 13d) i))	-	-	(293,430)	(293,430)
Transactions with owners	(166,452)	17,184	(539,119)	(688,387)
Balance, March 31, 2019	20,792,408	3,350,430	33,234,810	57,377,648

The adoption of IFRS 16 had no impact on the Company's Equity as at January 1, 2019 (Note 3).

	Share Capital \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance, January 1, 2018	20,157,530	3,539,349	28,695,869	52,392,748
Net income and comprehensive income for the period	-	-	1,600,748	1,600,748
	20,157,530	3,539,349	30,296,617	53,993,496
Share-based compensation expense (Note 13 b))	-	50,699	-	50,699
Share-based compensation capitalized to exploration and evaluation assets (Note 13 b))	-	2,760	-	2,760
Exercise of stock options (Note 13 a) i))	601,958	(285,097)	-	316,861
Transactions with owners	601,958	(231,638)	-	370,320
Balance, March 31, 2018	20,759,488	3,307,711	30,296,617	54,363,816

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

Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

	For the three-month periods ended	
	March 31,	
	2019	2018
	\$	\$
Operating activities		
Net income	1,180,000	1,600,748
Adjustments for:		
Provision for impairment of accounts receivable	39,669	61,150
Depreciation (Note 15)	644,773	557,643
Loss (gain) on disposal of property, plant and equipment	(2,404)	72,563
Deferred tax expense	56,673	109,359
Accretion expense on asset retirement obligations (Note 12)	2,337	23,721
Share-based compensation (Note 13 b))	16,297	50,699
Unrealized foreign exchange gain	(18,174)	(9,616)
	<u>1,919,171</u>	<u>2,466,267</u>
Changes in working capital items (Note 16)	<u>(472,484)</u>	<u>1,972,567</u>
Net cash from operating activities	<u>1,446,687</u>	<u>4,438,834</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	13,136	9,322
Acquisition of property, plant and equipment	(44,077)	(329,604)
Additions to exploration and evaluation assets	<u>(72,966)</u>	<u>(147,447)</u>
Net cash used in investing activities	<u>(103,907)</u>	<u>(467,729)</u>
Financing activities		
Payment on asset retirement obligations (Note 12)	-	(512,827)
Repayment of lease liabilities and interests' payments (Note 11)	(155,737)	(70,643)
Proceeds from the exercise of stock options (Note 13 a) i))	-	316,861
Repurchase of common shares (Note 13 a) ii))	(412,141)	-
Dividends (Note 13 d))	<u>(291,154)</u>	<u>-</u>
Net cash (used in) from financing activities	<u>(859,032)</u>	<u>(266,609)</u>
Change in cash during the period	483,748	3,704,496
Effect of exchange rate fluctuation on cash	14,933	(1,310)
Cash, beginning of period	<u>13,928,980</u>	<u>4,847,281</u>
Cash, end of period	<u>14,427,661</u>	<u>8,550,467</u>
Income taxes paid related to operating activities	546,885	802,404

Additional information on cash flows (Note 16)

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

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

1. Statute of incorporation and nature of activities

Dynacor Gold Mines Inc. (“Dynacor”, the ultimate controlling company), an ore processing and exploration company active in Peru, incorporated under Part 1A of the Companies Act (Québec) and as of February 14, 2011, is governed under the Business Corporations Act (Québec). The Company’s principal place of business is 625 René-Lévesque Blvd West, suite 1105, Montréal, Québec, Canada.

Dynacor, including its subsidiaries (collectively, the “Company”), produces gold and silver from ore purchased from local Peruvian miners which is processed at the Company’s wholly-owned processing plant. The Corporation derives all its sales from Peru. The Company does not have any mining producing properties.

The Company also hold interests in mineral properties in Peru that are currently in the exploration stage. The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The recoverability of the carrying value of assets and the Company’s continued existence is dependent upon the continuation of ore processing operations.

2. Statement of compliance with IFRS, basis of measurement and basis of consolidation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* and does not include all the information required for full annual consolidated financial statements. Accordingly, certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board have been omitted or condensed. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance of the Corporation since the last annual consolidated financial statements as at and for the year ended December 31, 2018.

These condensed interim consolidated financial statements are presented in United States dollars, which is the Company’s functional currency. The functional currency has remained unchanged during the reporting periods.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors (the “Board”) on May 9, 2019.

Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

Basis of consolidation

The condensed interim consolidated financial statements include the accounts of Dynacor and its subsidiaries. Dynacor controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany balances and transactions are eliminated on consolidation. Dynacor and its subsidiaries have a year end of December 31.

These condensed interim consolidated financial statements include the financial statements of Dynacor and its subsidiaries listed below:

	<u>Country of incorporation</u>	<u>Equity Interest</u>
Minera Veta Dorada SAC	Peru	100%
Compania Tumipampa SAC (*)	Peru	100%

(*) Up to April 30, 2018, date at which, Compania Tumipampa SAC was merged with, and absorbed by, Minera Veta Dorada SAC.

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

3. Significant accounting policies

The policies applied in these condensed interim consolidated financial statements are the same accounting policies and methods as those in our most recent audited annual financial statements except as noted below.

New standard adopted as at January 1, 2019

IFRS 16, Leases (“IFRS 16”)

IFRS 16 “Leases” replaces IAS 17 “Leases” along with three Interpretations (IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases-Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). The new Standard has been applied using the modified retrospective approach, with the cumulative effect, if any, of adopting being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.7%.

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating leases commitments at December 31, 2018 to the lease liabilities recognised at January 1, 2019:

	<u>\$</u>
Total operating lease commitments disclosed at December 31, 2018	670,600
Less recognition exemption: leases with remaining lease term of less than 12 months	(82,260)
Operating lease liabilities before discounting	588,340
Discount using incremental borrowing rate	(143,896)
Operating lease liabilities	444,444
Reasonably certain extension options	411,800
Finance lease obligations	747,689
Total leases liabilities recognized under IFRS 16 at January 1, 2019	<u>1,603,933</u>

The adoption of IFRS 16 had no impact on the Company's Equity as at January 1, 2019.

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

3. Significant accounting policies (continued)

Leases

Policy applicable from January 1, 2019

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”.

To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use.

The Company assess whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

Measurement and recognition of leases

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

3. Significant accounting policies (continued)

Policy applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the property, plant and equipment or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

4. Judgments, estimates and assumptions

The preparation of consolidated financial statements requires the Company's management to make judgments, estimates and assumptions on reported amounts of assets and liabilities, and reported amounts of revenues and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may be substantially different.

The critical accounting, judgements, estimates and assumptions are the same as those in our most recent audited annual financial statements except as noted below.

Leases

Recognising leases requires judgement and use of estimates and assumptions. Judgement is used to determine whether there is reasonable certainty that a lease extension or cancellation option will be exercised. Furthermore, management estimates are used to determine the lease terms and the appropriate interest rate to establish the lease liability (refer to Note 3).

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

5. Cash

	As at March 31, 2019 \$	As at December 31, 2018 \$
Cash (equivalent in USD)		
United States dollars	14,059,466	12,960,970
Peruvian Nuevo soles	(14,409)	566,966
Canadian dollars	382,604	401,044
	<u>14,427,661</u>	<u>13,928,980</u>

6. Accounts receivables

	As at March 31, 2019 \$	As at December 31, 2018 \$
Sales tax receivable ⁽¹⁾	2,350,459	2,737,601
Trade and other receivables ^{(2) (3)}	2,627,121	1,218,078
Advances to suppliers ⁽³⁾	750,802	618,693
	<u>5,728,382</u>	<u>4,574,372</u>

(1) Subsequent to period end, an amount of \$1.0 million was recovered from previous months filing claims.

(2) In January 2018, a loan was made to the Company President and CEO (note 17). As at March 31, 2019, this loan and accrued interests amounting to \$111,935 (\$108,576 as at December 31, 2018) is included in trade and other receivables.

(3) At March 31, 2019, trade and other receivables and advances to suppliers are presented net of a provision for impairment amounting to \$719,807 (\$680,138 as at December 31, 2018).

The Company's gold sales were with one sole customer at the market prices in effect at the time of delivery. Economic dependence is mitigated as the Company can sell its gold to numerous clients worldwide.

7. Inventories

	As at March 31, 2019 \$	As at December 31, 2018 \$
Ore	503,305	1,011,865
Gold in process	3,650,602	4,819,178
	<u>4,153,907</u>	<u>5,831,043</u>
Supplies	339,129	338,153
	<u>4,493,036</u>	<u>6,169,196</u>

No inventories are carried at fair value less cost to sell at March 31, 2019 and December 31, 2018.

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

8. Property, plant and equipment

	Land \$	Buildings \$	Plant & equipment \$	Rolling stock \$	Total \$
Cost					
Balance, January 1, 2019	367,138	4,697,378	21,093,439	2,516,024	28,673,979
Additions	-	22,264	21,813	-	44,077
Disposals	-	-	-	(34,327)	(34,327)
Reclassification to right-of-use assets	-	-	-	(1,240,824)	(1,240,824)
Balance, March 31, 2019	367,138	4,719,642	21,115,252	1,240,873	27,442,905
Accumulated Depreciation					
Balance, January 1, 2019	-	564,841	4,177,669	1,319,260	6,061,770
Depreciation	-	63,760	429,368	42,506	535,634
Depreciation capitalized as exploration and evaluation assets	-	-	7,764	2,478	10,242
Disposals	-	-	-	(23,595)	(23,595)
Reclassification to right-of-use assets	-	-	-	(321,790)	(321,790)
Balance, March 31, 2019	-	628,601	4,614,801	1,018,859	6,262,261
Net book value, March 31, 2019	367,138	4,091,041	16,500,451	222,014	21,180,644

	Land \$	Buildings \$	Plant & equipment \$	Rolling stock \$	Total \$
Cost					
Balance, January 1, 2018	317,138	4,530,693	20,463,599	1,889,055	27,200,485
Additions	50,000	177,809	1,187,022	585,693	2,000,524
Disposals	-	-	(217,813)	(325,010)	(542,823)
Other adjustments and reclassifications	-	(11,124)	(339,369)	366,286	15,793
Balance, December 31, 2018	367,138	4,697,378	21,093,439	2,516,024	28,673,979
Accumulated Depreciation					
Balance, January 1, 2018	-	461,314	2,626,826	872,399	3,960,539
Depreciation	-	260,683	1,813,199	335,702	2,409,584
Depreciation capitalized as exploration and evaluation assets	-	-	37,575	18,106	55,681
Disposals	-	-	(112,149)	(267,678)	(379,827)
Other adjustments and reclassifications	-	(157,156)	(187,782)	360,731	15,793
Balance, December 31, 2018	-	564,841	4,177,669	1,319,260	6,061,770
Net book value, December 31, 2018	367,138	4,132,537	16,915,770	1,196,764	22,612,209

As at December 31, 2018, included in rolling stock was rolling stock under finance leases with a carrying value of \$919,034. With the adoption of IFRS 16 these rolling stocks are now classified under right-of-use assets (Note 11).

At the end of 2017, after more than a year of keeping the Huanca Metalex plant in care and maintenance mode and, considering the ore market conditions prevailing at that time and the ability for the Company to increase processing capacity at its new plant, the Company has taken the decision to definitively close its Huanca Metalex plant and initiate decommissioning and site restoration. Since December 31, 2017, the net book value of the Huanca Metalex plant is nil.

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

9. Exploration and evaluation assets

	Exploration properties			
	Tumipampa	Anta	Others	Total
	\$	\$	\$	\$
Mining rights				
Balance, January 1, 2019	1,340,773	192,084	27,479	1,560,336
Balance, March 31, 2019	1,340,773	192,084	27,479	1,560,336
Deferred exploration and evaluation costs				
Balance, January 1, 2019	16,669,366	306,718	-	16,976,084
Additions	88,009	211	-	88,220
Balance, March 31, 2019	16,757,375	306,929	-	17,064,304
TOTAL	18,098,148	499,013	27,479	18,624,640

	Exploration properties			
	Tumipampa	Anta	Others	Total
	\$	\$	\$	\$
Mining rights				
Balance, January 1, 2018	1,346,777	188,084	23,979	1,558,840
Additions	-	-	8,100	8,100
Reclassification	-	4,000	(4,000)	-
Write-off	(6,004)	-	(600)	(6,604)
Balance, December 31, 2018	1,340,773	192,084	27,479	1,560,336
Deferred exploration and evaluation costs				
Balance, January 1, 2018	15,582,612	302,705	-	15,885,317
Additions	1,074,482	4,013	-	1,078,495
Transfer from deposits for exploration work	12,272	-	-	12,272
Balance, December 31, 2018	16,669,366	306,718	-	16,976,084
Deposits for exploration work				
Balance January 1, 2018	-	-	-	-
Additions	12,272	-	-	12,272
Transfer to deferred exploration and evaluation costs	(12,272)	-	-	(12,272)
Balance, December 31, 2018	-	-	-	-
TOTAL	18,010,139	498,802	27,479	18,536,420

Dynacor Gold Mines Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018

(Expressed in US dollars)

9. Exploration and evaluation assets (continued)

Tumipampa property ("Tumipampa")

Tumipampa is 500 km from Lima, Peru, in the Circa district, Province of Abancay, department of Apurimac. At March 31, 2019 the Tumipampa project covers an area of 10,001 hectares.

During the year ended December 31, 2017, considering the inability to perform any exploration work on the Nicole concession (276 hectares), the Company decided not to make the final payment, which was due in January 2018, as per the contract with the owner of the concession. Therefore, the related mining rights (\$175,000) were written off at December 31, 2017.

Anta property ("Anta")

Anta is in the district of San Pedro, 72 km west of Nazca, within the Western Andean Cordillera in the Province of Lucanas, Department of Ayacucho. Anta includes five concessions that cover an area of 5,100 hectares and is a copper/silver exploration prospect.

10. Trade and other payables

	As at March 31, 2019 \$	As at December 31, 2018 \$
Accounts payable and accrued liabilities (1)	2,604,505	3,043,409
Accrued profit sharing (2)	151,074	759,961
Wages and benefits	724,366	470,601
	<u>3,479,945</u>	<u>4,273,971</u>

(1) Including \$293,430 of dividends paid in April 2019.

(2) Under Peruvian labor laws, the Company is required to distribute 8% of its annual taxable income before tax to employees for each of its Peruvian subsidiaries. Amounts accrued as at December 31 are paid in March of the following year.

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11. Leases

The Company has leases for the land of the Chala plant, office spaces and some of its rolling stock. The leases have an initial term of 2 to 17 years and some have a renewal option after that date. The lease terms are negotiated individually and encompass a wide range of different terms and conditions.

Right-of-use assets

	Land \$	Building \$	Rolling Stock \$	Total \$
Costs				
Adjustment on adoption to IFRS 16	260,643	595,601	-	856,244
Reclassification from Property, plant and equipment	-	-	1,240,824	1,240,824
Additions	-	-	212,378	212,378
Balance, March 31, 2019	260,643	595,601	1,453,202	2,309,446
Accumulated Depreciation				
Reclassification from Property, plant and equipment	-	-	321,790	321,790
Depreciation	3,777	35,736	69,626	109,139
Depreciation capitalized as exploration and evaluation assets	-	-	4,125	4,125
Balance, March 31, 2019	3,777	35,736	395,541	435,054
Net book value, March 31, 2019	256,866	559,865	1,057,661	1,874,392

Lease liabilities

	As at March 31, 2019 \$	As at December 31, 2018 \$
Balance, beginning of the period	747,689	494,618
Adoption of IFRS 16	856,244	-
New leases	212,378	567,591
Repayment of lease liabilities and interests' payments	(155,737)	(314,520)
Balance, end of the period	1,660,574	747,689

The future minimum lease payments due for the next years are as follows:

	As at March 31, 2019 \$	As at December 31, 2018 \$
Within one year	741,854	469,175
1 to 2 years	497,808	284,977
2 to 5 years	398,906	35,507
After 5 years	278,581	-
Total	1,917,149	789,659
Less: implicit interest from 5.00% to 6.85% (2018 – 6.00% to 6.85%)	(256,575)	(41,970)
	1,660,574	747,689
Less: current portion	(660,034)	(436,973)
	1,000,540	310,716

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11. Leases (continued)

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of a lease liability is 27,300 \$ for the three-month period ended March 31, 2019 and relates to short term leases.

12. Asset retirement obligations

The table below presents the reconciliation of the provision for asset retirement obligations for the periods ended:

	As at March 31, 2019	As at December 31, 2018
	\$	\$
Balance, beginning of the period	3,778,010	4,365,940
Disbursement	-	(622,412)
Accretion of discounted cash flows	2,337	34,482
Balance, end of the period	3,780,347	3,778,010

The provision for closure of production facilities and exploration projects represents the present value of the closure costs that are expected to be incurred between the years 2019 and 2038 for the Metalex Plant, the Veta Dorada Plant and Tumipampa. These estimates are based on studies prepared by independent advisers that meet the environmental regulations in effect. The provision for closure of the production facilities and exploration projects corresponds mostly to activities that must be carried out for restoring the areas affected by operation and production activities. The principal works to be performed correspond to earthworks, re-vegetation efforts and dismantling of the production facilities. Closure budgets are reviewed regularly to consider any significant change in the studies conducted. Nevertheless, the closure costs will depend on the market prices for the closure works required, which would reflect future economic conditions. Also, the time when the disbursements will be made depends on the useful life of the facilities.

As of March 31, 2019, the future value of the provision for closure of facilities and exploration projects is \$5.9 million (\$6.1 million as at December 31, 2018) which has been discounted using annual risk-free rates up to 2.8% in periods of up to 19 years.

The table below presents the breakdown of the provision for asset retirement obligations for the periods ended:

	As at March 31, 2019	As at December 31, 2018
	\$	\$
Veta Dorada Plant	3,485,093	3,482,756
Tumipampa	277,269	277,269
Metalex Plant	17,985	17,985
Balance, end of the period	3,780,347	3,778,010

The Company believes that this liability is sufficient to meet the current environmental protection laws approved by the MEM. As of March 31, 2019, the Company has constituted letters of credit in favor of the MEM for \$2,216,144 (\$2,216,144 as at December 31, 2018) to secure closure plans of its production facilities and exploration projects.

During the last quarter of 2017, the Company started the decommissioning of the Huanca Metalex Plant. The site restoration was completed during the first half of 2018 however the final Ministry of mines approval is still pending.

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(Expressed in US dollars)

13. Share capital

a) Shares authorized

Unlimited number of common shares, without par value.

Unlimited number of preferred shares, without par value, non-cumulative annual dividend of 8%, redeemable at their issue price, non-participating, non-voting.

Issued and fully paid

Movements in the Company's share capital during the three-month periods ended March 31, 2019 and 2018, are as follows:

	2019		2018	
	Numbers of common shares	Amount \$	Numbers of common shares	Amount \$
Balance beginning of year	39,524,977	20,958,860	38,827,594	20,157,530
Exercise of share purchase options i)	-	-	826,750	601,958
Repurchase of common shares ii)	(313,900)	(166,452)	-	-
Balance, end of period	39,211,077	20,792,408	39,654,344	20,759,488

i) During the three-month period ended March 31, 2019, no share purchase options were exercised under the share purchase plan. 826,750 share purchase options for a cash consideration of \$316,861 for the three-month period ended March 31, 2018. Upon exercise, an amount of \$285,097, which had been attributed to those share purchase options, was reclassified from contributed surplus to share capital.

ii) In April 2018, the Company announced the implementation of a normal course issuer bid share buyback program, through which the Company was able to purchase, for cancellation, up to 1,982,717 or approximately 5% of its outstanding common shares as of April 10, 2018, over the 12 month period beginning April 23, 2018 and ending April 22, 2019, when the bid expired, with a daily maximum of 12,692 common shares which is equal to 25% of the average daily trading volume on the TSX for the nine-month period ended March 31, 2018 except where purchases are made in accordance with the "block purchase exception" of the TSX rules.

The extent to which Dynacor repurchased its shares and the timing of such repurchases depend upon market conditions and other corporate considerations, as determined by the Company's management team. The purchases were funded from existing cash balances.

For the three-month period ending March 31, 2019, the Company has repurchased 313,900 common shares for a total cash consideration of \$412,141 (CA\$ 546,130), an average repurchase cost of \$1.31 (CA\$1.74) per share. Total cash consideration paid exceeded by \$245,689 the respective book value of the shares repurchased. This excess was recorded as a reduction of retained earnings in the Consolidated Statement of Changes in Equity. Since April 23, 2018, the Company has repurchased 760,267 common shares for a total cash consideration of \$970,596 (CA\$ 1,274,391), an average repurchase cost of \$1.28 (CA\$1.68) per share.

b) Share purchase options

On August 14, 2007, the Board adopted a stock option plan (the "Plan") whereby they may grant to directors, officers, employees, or consultants options to acquire common shares up to 10% of the issued and outstanding common shares. The Board has the authority to determine the terms, limits, restrictions and conditions of the grant of options, to interpret the Plan and make all decisions relating thereto. The option exercise price is established by the Board and may not be lower than the market price of the common shares at the time of grant. At the June 20, 2018 annual meeting of shareholders, the shareholders approved a Board resolution authorizing an amendment to the Plan allowing the replenishment of 920,000 options previously issued under the Plan and that have already been exercised by their holders. This replenishment of options will allow the Corporation to issue additional options without having to increase the total amount of shares issuable under the Plan, which is 3,500,000 common shares. The options may be exercised during a period determined by the Board, which may vary, but will not exceed ten years from the date of the grant.

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(Expressed in US dollars)

13. Share capital (continued)

b) Share purchase options (continued)

Movements in the Company's share purchase options during the three-month periods ended March 31, 2019 and 2018, are as follows:

	2019		2018	
	Numbers of options	Weighted average exercise price CA\$	Number of options	Weighted average exercise price CA\$
Balance, beginning of period	1,217,500	1.85	2,390,500	1.28
Granted	-	-	50,000	1.67
Exercised	-	-	(826,750)	0.48
Cancelled	-	-	(141,500)	2.18
Balance, end of period	1,217,500	1.85	1,472,250	1.65
Exercisable options	1,026,500	1.80	1,131,000	1.50

The weighted average share price for the share purchase options exercised during the three-month period ended March 31, 2019, at the date of the exercise is CA\$1.71 (CA\$1.65 for the three-month period ended March 31, 2018).

During the three-month period ended March 31, 2019, no share purchase options were granted (50,000 with a grant date fair value of \$0.85 per share purchase option during the three-month period ended March 31, 2018). The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes option pricing model to determine share-based compensation costs over the life of the awards for share purchase options granted during this period.

	2018
Risk-free interest rate	1.60%
Expected volatility	65.00%
Expected life	84 months
Exercise price	CA\$1.78
Share price	CA\$1.78
Dividend yield	0.00%
Forfeiture rate	5.00%

The volatility was estimated based on the historical share prices of Dynacor over the expected average life of the options.

For the three-month period ended March 31, 2019, the share-based compensation costs amounted to \$17,184 (\$53,459 for the three-month period ended March 31, 2018) of which \$16,297 was charged to the consolidated statement of comprehensive income (\$50,699 for the three-month period ended March 31, 2018) and \$887 was capitalized to exploration and evaluation assets (\$2,760 for the three-month period ended March 31, 2018).

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13. Share capital (continued)

c) *Deferred share units "DSU"*

Effective May 11, 2015, the Company put in place the DSU Plan, whereby the Board may grant to its directors, senior officers and shareholders DSUs. DSUs are units that are credited to an eligible participant's account, the value of which, on a particular date, shall be equal to the fair market value of the Company's common share for such date. The Board has the authority to determine the number of DSUs to be awarded and the terms and conditions of each award. The number of shares that are reserved for issuance under the DSU Plan is limited to 500,000. DSUs can only be settled following departure from the Company in accordance with the terms of the DSU Plan.

	2019		2018	
	Numbers of DSUs	Cost \$	Numbers of DSUs	Cost \$
Balance, beginning and end of period	270,094	372,034	160,025	229,819

There was no movement related to the Company's DSUs during the three-month periods ended March 31, 2019 and 2018. Consequently, the Company has not recorded any compensation costs relating to DSU's in the condensed interim consolidated statement of comprehensive income.

d) *Dividends*

The following dividends were declared by the Company:

- CA\$0.01 per qualifying common share on March 12, 2019 resulting in dividends amounting to \$293,430 (CA\$392,111) were paid on April 3, 2019.
- CA\$0.01 per qualifying common share on November 29, 2018 resulting in dividends amounting to \$291,154 (CA\$397,194) were paid on January 3, 2019.

14. Earnings per share

Both the basic and diluted earnings per share have been calculated using the net income as the numerator, i.e. no adjustment to net income was necessary during the three-month periods ended March 31, 2019 and 2018.

	Three-month periods ended March 31,	
	2019	2018
Net income for the period	\$1,180,000	\$1,600,748
Weighted average number of common shares outstanding	39,373,928	39,581,177
Dilutive share purchase options and DSUs	350,697	461,572
Weighted average number of outstanding shares for diluted earnings per share	39,724,625	40,042,749
Basic earnings per share	\$0.03	\$0.04
Diluted earnings per shares ⁽¹⁾	\$0.03	\$0.04

(1) As at March 31, 2019, 782,500 share purchase options are excluded from diluted earnings per share since their exercise price are higher than the average share price for Dynacor shares during the three-month period ended March 31, 2019 (559,750 excluded as at March 31, 2018).

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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(Expressed in US dollars)

15. Information included in the consolidated statements of comprehensive income

The following table provides a breakdown of employee remuneration:

	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Salaries and short-term employee benefits		
Cost of Sales	855,003	814,237
General and administration expenses	582,327	467,174
Capitalized in exploration and evaluation assets	59,625	43,646
	<u>1,496,955</u>	<u>1,325,057</u>
Share-based compensation		
General and administration expenses	16,297	50,699
Capitalized in exploration and evaluation assets	887	2,760
	<u>17,184</u>	<u>53,459</u>
	<u>1,514,139</u>	<u>1,378,516</u>
	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Cost of sales		
Ore	15,347,965	18,702,974
Salaries, benefits and other employee expenses	928,140	889,889
Production supplies	852,485	905,742
Transportation	646,023	571,450
Other production costs	434,792	510,664
Provision for impairment of accounts receivable	39,669	(38,850)
Depreciation of property, plant and equipment and of right-of-use assets	590,514	541,210
Peruvian profit-sharing expense	121,100	155,234
Variation of gold in process inventory	1,168,575	728,042
	<u>20,129,263</u>	<u>22,966,355</u>
General and administrative expenses		
Salaries and benefits and other employee expenses	582,327	467,174
Office and other expenses	149,268	196,917
Provision for impairment of accounts receivable	-	100,000
Professional fees	68,871	109,759
Promotion and corporate development	73,452	127,852
Travel expenses	40,648	34,005
Peruvian profit-sharing expense	25,683	36,413
	<u>940,249</u>	<u>1,072,120</u>
<u>Share-based compensation:</u>		
Options	16,297	50,699
	<u>956,546</u>	<u>1,122,819</u>

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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15. Information included in the consolidated statements of comprehensive income (continued)

	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Financial expenses		
Interest on lease liabilities	25,761	-
Other interest and financial expenses	12,256	45,372
Accretion expense on asset retirement obligation	2,337	23,721
	<u>40,354</u>	<u>69,093</u>
	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Depreciation		
Depreciation of property, plant and equipment	522,916	541,210
Depreciation of right-of-use assets	67,598	-
Depreciation included in costs of sales	<u>590,514</u>	<u>541,210</u>
Depreciation of property, plant and equipment	12,718	16,433
Depreciation of right-of-use assets	41,541	-
Depreciation included in general and administration expenses	<u>54,259</u>	<u>16,433</u>
	<u>644,773</u>	<u>557,643</u>

Income taxes

The current income tax charge amounts to \$546,536 (\$634,960 for the three-period ended March 31, 2018) and the deferred income tax charge amounts to \$54,898 (\$106,992 for the three-period ended March 31, 2018) and relates to origination and reversal of temporary differences mainly relating to fixed assets and exploration expenses.

The total tax income expense comprises \$225,446 (\$356,957 for the three-period ended March 31, 2018) of unused tax losses for which no deferred taxes were recognized.

16. Information included in the statements of cash flows

	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Changes in working capital items		
Accounts receivables	(1,152,928)	1,411,544
Current tax assets	(281)	(173,818)
Inventories	1,676,160	600,990
Prepaid expenses	(159,848)	(96,051)
Trade and other payables	(835,587)	229,902
	<u>(472,484)</u>	<u>1,972,567</u>

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17. Related party transactions and disclosures

Transactions

In January 2018, a loan of \$158,000 (CA\$198,000) was made to the Company President and CEO in order for him to exercise 600,000 share purchase options at a price of CA\$0.26 which came to maturity.

This loan bears interests at an annual rate of 4% with maturity at December 30, 2019. Minimum required capital payments as per the agreement are as follows:

- CA\$50,000 in 2018,
- Cumulative CA\$100,000 at June 30, 2019 at the latest,
- Balance plus interests at December 30, 2019 at the latest.

As at March 31, 2019, the loan and accrued interests amount to \$111,935 or CA\$149,579.

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer, Chief Financial Officer and Vice President Operations (since August 2018).

Remuneration attributed to key management personnel can be summarized as follows:

	Three-month periods ended March 31,	
	2019	2018
	\$	\$
Salaries, benefits and directors' fees	239,767	171,707
Share-based compensation ⁽¹⁾	1,930	5,468
	<u>241,697</u>	<u>177,175</u>

(1) Represents the value of share purchase options which have vested during the period.

Other related parties

In the normal course of operations and at fair value, being the amount of consideration determined and agreed to by the related parties:

A firm of which an officer of the Company is a partner, charged professional fees amounting to \$20,999 for the three-month period ended March 31, 2019 (\$7,270 for the three-month period ended March 31, 2018).

18. Commitments

The Company has short-term lease agreements (less than 12 months). As at March 31, 2019, future minimum lease payments required to meet obligations total \$75,000.

19. Comparative figures

Certain comparative figures have been reclassified in order to be consistent with classification and presentation in the current period.

20. Subsequent events

The Toronto Stock Exchange (TSX) has approved the new Corporation's normal course issuer bid (NCIB), under which Dynacor may purchase, for cancellation, up to 3,273,485 common shares or approximately 10% of its public float as of April 17, 2019.