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

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

MARCH 31, 2013

DYNASTY METALS & MINING INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Vancouver, Canada

May 14, 2013

DYNASTY METALS & MINING INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
Expressed in United States dollars unless otherwise noted

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
EXPENSES		
Administrative salaries and benefits	$ 248,955	$ 242,555
Amortization and accretion	92,876	163,637
Bank interest and fees	24,777	42,656
Insurance	66,270	47,078
Management fees	71,195	73,415
Office and general	235,775	233,400
Professional fees	296,403	418,274
Rent, utilities and maintenance	66,345	26,218
Shareholder communication	19,851	31,541
Stock-based compensation (Note 9)	56,798	435,380
Transfer agent and filing fees	48,224	36,811
Travel and entertainment	75,689	88,640
Loss and comprehensive loss for the year	$ (1,303,158)	$ (1,889,605)
Basic and diluted loss per share	$ (0.03)	$ (0.04)
Weighted average number of shares outstanding	42,461,083	42,414,486

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

	March 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash	$ 160,986	$ 433,364
Receivables	58,216	54,021
Prepaid expenses	899,687	805,202
Inventory (Note 4)	3,309,890	3,064,284
	4,428,779	4,356,871
Advances and deposits	135,964	86,764
Mine properties, plant and equipment (Note 5)	54,928,654	55,564,745
Exploration and evaluation properties (Note 6)	13,886,772	12,836,750
	$ 73,380,169	$ 72,845,130
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,974,162	$ 6,453,096
Short term loans (Note 7)	1,843,694	600,000
	8,817,856	7,053,096
Provision for closure and restoration (Note 8)	1,693,637	1,676,998
	10,511,493	8,730,094
Shareholders' equity		
Capital stock (Note 9)	89,059,365	89,059,365
Contributed surplus (Note 9)	13,540,117	13,483,319
Deficit	(39,730,806)	(38,427,648)
	62,868,676	64,115,036
	$ 73,380,169	$ 72,845,130

Nature and continuance of operations (Note 1)

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

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

	Number of Shares	Share Capital	Retained Loss	Contributed Surplus	Total
Balance at January 1, 2013	42,461,083	$ 89,059,365	$ (38,427,648)	$ 13,483,319	$ 64,115,036
Net loss for the period	-	-	(1,303,158)	-	(1,303,158)
Stock-based compensation (Note 8)	-	-	-	56,798	56,798
Balance at March 31, 2013	42,461,083	$ 89,059,365	$ (39,730,806)	$ 13,540,117	$ 62,868,876
Balance at January 1, 2012	42,461,083	$ 89,059,365	$ (32,607,155)	$ 12,848,842	$ 69,301,052
Net loss for the period	-	-	(1,889,605)	-	(1,889,605)
Stock-based compensation (Note 8)	-	-	-	435,380	435,380
Balance at March 31, 2012	42,461,083	$ 89,059,365	$ (34,496,760)	$ 13,284,222	$ 67,846,827

DYNASTY METALS & MINING INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Expressed in United States dollars unless otherwise noted

	For the Three Months Ended March 31 2013	For the Three Months Ended March 31 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (1,303,158)	$ (1,889,605)
Items not affecting cash:		
Amortization and accretion	92,876	163,637
Stock-based compensation (Note 8)	56,798	435,380
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(4,195)	(68,340)
(Increase) decrease in prepaid expenses	(94,485)	(1,576)
(Increase) decrease in inventory	274,257	127,544
Increase (decrease) in accounts payable	73,507	471,223
Net cash used in operating activities	(904,400)	(761,737)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on exploration and evaluation properties	(1,050,022)	(1,029,123)
Exploration advances and deposits	(49,200)	(128,978)
Pre-production revenue credited to mine properties, plant and equipment	8,472,082	7,894,197
Expenditures on mine properties, plant and equipment	(7,984,532)	(9,491,620)
Net cash recovered (used) in investing activities	(611,672)	(2,755,524)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of short term debt	1,443,694	-
Repayment of short term debt	(200,000)	-
Net cash provided by financing activities	1,243,694	-
Change in cash for the period	(272,378)	(3,517,261)
Cash, beginning of period	433,364	6,238,514
Cash, end of period	$ 160,986	$ 2,721,253
Cash paid during the period for interest	$ 15,354	$ -
Cash paid during the period for income taxes	$ -	$ 1,665,234
Cash received during the period for interest	$ -	$ 1,545

Supplemental disclosure with respect to cash flows (Note 10)

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 and developing mineral concessions. All such concessions are currently situated in Ecuador. The address of the Company's corporate 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 the new Mining Act and Regulations (collectively, the "Mining Law") were enacted. The new Mining Law distinguishes between small scale and large scale operations. A small scale operation is an operation where the daily tonnage mined does not exceed 300 tonnes of mined material per concession per day. 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.

Operations which mine in excess of 300 tonnes per day from each concession are required to enter into an exploitation contract with the government which will set out the specific terms and conditions of each mining operation, including the royalty payable to the government and the application of the windfall tax. The Company's other principal projects are expected to fall into this 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 an exploitation contract and royalty rate on terms satisfactory to the Company based upon its business, operational and financial requirements. In the event that an exploitation contract with the government is determined to adversely impact the viability of the Company's principal projects, it may be necessary, in the future, to re-evaluate the carrying value of the Company's mine properties, plant and equipment, exploration and evaluation properties and certain other capital assets and the Company's ability to exploit these properties.

From inception, the Company has funded substantially all of its operating and capital expenses with proceeds from the sale of capital stock. In the year ended December 31, 2012 and the current year to date, mine development expenses and overheads have been primarily funded from the sale of precious metals produced during mine construction at the Zaruma Gold Project. The Company is in the pre-commercial stage of operations having yet to reach the stage of sustainable commercial production. Therefore, continuing operations are dependent upon the Company's ability in the future to mitigate the risks and overcome the challenges generally associated with comparable development stage enterprises, most significantly, it must either generate sufficient cash flow from the sale of precious metals in the future or secure additional working capital as required, neither of which is assured.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As mentioned above, there are conditions and matters which indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern. In the event the Company is unable to produce sufficient precious metals for sale in the future or secure additional working capital, from debt or equity financings or through the profitable sale of capital assets, these consolidated financial statements may require adjustments relating to the recoverability and classification of recorded assets and liabilities.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB ("International Accounting Standards Board") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34- Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company's audited annual financial statements for the year ended December 31, 2012.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of May 14, 2013, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the consolidated financial statements for the period ended March 31, 2013.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company's audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2012.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities 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.

Significant accounts that require estimates relate to the possible impairment of property, plant and equipment, mine development costs and exploration and evaluation properties, the useful life of assets for amortization, recognition of deferred tax assets, valuation of stock-based compensation, the estimated economically recoverable resources for depreciating mineral properties and valuation of asset retirement obligations. Key judgments and estimates made by management with respect to these areas have been disclosed in the notes to these financial statements as appropriate.

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

The following standards and amendments to existing standards have been adopted by the Company commencing January 1, 2013:

IAS 1 Presentation of *Financial Statement* - These amendments of IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to net earnings at a future point in time would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after July 1, 2012. This amendment affects presentation only and had no impact on the Company's unaudited condensed interim consolidated financial statements.

3. ADOPTION OF NEW ACCOUNTING STANDARDS (cont'd)

IAS 19 *Employee Benefits* – On June 16, 2011, the International Accounting Standards Board (IASB) published a revised version of IAS 19. The revised IAS 19 ("IAS 19R") represents IASB's effort to improve the accounting for employee retirement benefits. The revisions include. The adoption of this standard had a no impact on the Company's unaudited condensed interim consolidated financial statements.

IFRS 10 *Consolidated Financial Statements* - IFRS 10 provides a definition of control under IFRS such that the same criteria are applied to all entities. Control exists when an entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability touse its power to affect the investor's return. The adoption of this standard had a no impact on the Company's unaudited condensed interim consolidated financial statements.

IFRS 11 *Joint Arrangements* - IFRS 11 reduces the types of joint arrangement to two: joint ventures and joint operations. Joint operations are arrangements where the jointly controlling parties have rights to the assets and obligations for the liabilities of the arrangement. Joint operations are accounted for by recognition of an entity's proportionate share of assets, liabilities, revenues and expenses. Joint ventures are arrangements where the jointly controlling parties have rights only to the net assets of the arrangement. The adoption of this standard had a no impact on the Company's unaudited condensed interim consolidated financial statements.

IFRS 12 *Disclosure of Interest in Other Entities* - IFRS 12 sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28 *Investments in Associates*. The requirements of IFRS 12 relate only to disclosures that are applicable for the first annual period after adoption; these disclosure requirements will be incorporated as necessary in the Company's annual financial statements for the year ended December 31, 2013.

IFRS 13 *Fair Value Measurement* -This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and single source of fair value measurement and disclosure requirements for use across all IFRS's. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The full disclosure requirements of IFRS 13 are prospective and will be incorporated in the Company's annual financial statements for the year ended December 31, 2013.
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IFRIC 20 *Stripping costs in the production phase of a surface mine* – This interpretation applies to waste removal costs that are incurred in open pit mining activity during the production phase of the mine. Recognition of a stripping activity asset requires the asset to be related to an identifiable component of the ore body. Stripping costs that relate to inventory produced should be accounted for as a current production cost in accordance with IAS 2, *Inventories*. Stripping costs that generate a benefit of improved access and meet the definition of an asset should be accounted for as an addition to an existing asset. Existing stripping costs on the balance sheet at transition that donot relate to a specific ore body should be written off to opening retained earnings. The stripping activity asset shall be depreciated on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The adoption of this standard had a no impact on the Company's unaudited condensed interim consolidated financial statements.

Expressed in United States dollars unless otherwise noted

4. INVENTORY

	March 31 2013	December 31 2012
Materials and supplies	$ 1,934,400	$ 1,774,381
Finished goods	1,375,490	1,289,903
	$ 3,309,890	$ 3,064,284

Materials and supplies are valued at the lower of average cost and net realizable value, with replacement costs being the typical measure of net realizable value. Finished goods inventory consists of metal available for sale in dore bar form and is valued at the lower of average production cost and net realizable value less estimated royalties, refining and transportation charges.

5. MINE PROPERTIES, PLANT AND EQUIPMENT

Net carrying costs at March 31, 2013 and December 31, 2012 are as follows:

	Mines Under Construction	Plant and Equipment	Land and Buildings	Total
Cost				
Balance as at December 31, 2011	$ 24,443,920	$ 32,076,895	$ 3,292,747	$ 59,813,562
Additions	34,884,907	1,502,581	-	36,387,488
Disposals	-	(279,658)	-	(279,658)
Net-off of pre-commercial sales	(28,401,178)	-	-	(28,401,178)
Balance as at December 31, 2012	30,927,649	33,299,818	3,292,747	67,520,214
Additions	8,887,191	170,908	-	9,058,099
Disposals	-	(223,867)	-	(223,867)
Net-off of pre-commercial sales	(8,472,082)	-	-	(8,472,082)
Balance as at March 31, 2013	**$ 31,342,758**	**$ 33,246,859**	**$ 3,292,747**	**$ 67,882,364**
Accumulated amortization				
Balance as at December 31, 2011	$ -	$ 7,578,988	$ 124,930	$ 7,703,918
Amortization	-	4,333,715	31,287	4,365,002
Disposals	-	(113,451)	-	(113,451)
Balance as at December 31, 2012	-	11,799,252	156,217	11,955,469
Amortization	-	1,000,345	7,822	1,008,167
Disposals	-	(9,926)	-	(9,926)
Balance as at March 31, 2013	**$ -**	**$ 12,789,671**	**$ 164,039**	**$ 12,953,710**
Net book value				
At December 31, 2012	$ 30,927,649	$ 21,500,566	$ 3,136,530	$ 55,564,745
At March 31, 2013	$ 31,342,758	$ 20,457,188	$ 3,128,708	$ 54,928,654

Expressed in United States dollars unless otherwise noted

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

Mines under construction

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

Plant and equipment

The Company has completed the construction of a production facility to process material extracted from its Zaruma Gold Project. Plant construction includes the cost of engineering, materials, construction labor, machinery, equipment and the operating costs of commissioning the plant until June 30, 2010. Subsequent to this date the Company commenced amortizing the plant over its estimated useful life. As at March 31, 2013 the Zaruma Gold Project was in pre-commercial production having not yet finished the start-up phase of mine development activities. Until such time as commercial production commences, the plant's operating costs will be capitalized to mines under construction.
Equipment includes all mining equipment includes various machinery and equipment being used in the development of portals and to mine material from the Zaruma Gold Project.

Land and building

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

6. 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, 2011	$ 10,286,036	$ 1,537,166	$ 170,169	$ 11,993,371
Costs				
Camp supplies and field costs	21,965	679	-	22,644
Geological consulting	79,561	-	-	79,561
Mineral concession rights	580,522	6,670	-	587,192
Project administration	76,027	45,337	-	121,364
Travel and related costs	32,569	49	-	32,618
Additions for the period	790,644	52,735	-	843,379
Balance, December 31, 2012	$ 11,076,680	$ 1,589,901	$ 170,169	$ 12,836,750

Expressed in United States dollars unless otherwise noted

6. EXPLORATION AND EVALUATION PROPERTIES (cont'd)

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2012	$ 11,076,680	$ 1,589,901	$ 170,169	$ 12,836,750
Costs				
Camp supplies and field costs	3,024	-	-	3,024
Geological consulting	22,749	-	-	22,749
Mineral concession rights	983,178	3,578	-	986,758
Project administration	19,382	12,199	-	31,581
Travel and related costs	5,912	-	-	5,912
Additions for the period	1,034,245	15,777	-	1,050,022
Balance, March 31, 2013	$ 12,110,925	$ 1,605,678	$ 170,169	$ 13,886,772

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

Furthermore, title to mineral 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 herein, are properly registered and in good standing. Property title may, however, be subject to unregistered prior agreements or transfers and title may be affected by undetected defects or the rights of indigenous peoples.

Expressed in United States dollars unless otherwise noted

7. SHORT TERM LOANS

	March 31 2013	December 31 2012
Banco Bolivariano Loan	$ 400,000	$ 600,000
Ecuadorian Government Loans	1,193,694	-
Related Party Loan	250,000	-
	$ 1,843,694	$ 600,000

Banco Bolivariano Loan
In November, 2012 the Company entered into a short term loan totalling $600,000 (2011 - $nil) with a local Ecuadorian bank. The Loan is secured with the Company's owned office premises in Quito; the loan principal is repayable in six equal payments of $100,000 every 61 days which commenced on January 8, 2013 and ends on November 9, 2013. Interest is charged based on the Ecuador Central Bank "Referential Passive" Interest Rate plus 4.1%, the aggregate of which is currently 8.25% and is due on the date principal repayments are made.

Ecuadorian Government Loans
In March 2013 the Company entered into agreements with the Government of Ecuador to defer approximately 80% of the royalty payments owed relating to the second half of fiscal 2012, totalling $300,000, and 80% of the concession fees owing for fiscal 2013, totalling $893,694. Both loans are to be repaid in 6 equal monthly amounts commencing in mid-April 2013 and ending in mid-September 2013. No interest is charged on the loan relating to the deferred royalty payments. Interest is charged on the loan relating to the deferred concession fee amount based on 1.5 times the Ecuador Central Bank "Referential Active" Interest Rate which is currently 8.17%.

Related Party Loan
In March 2013 the Company entered into an interest free unsecured Promissory Note with Robert Washer, the Company's President and Chief Executive Officer. The principal amount of the Note is $250,000 and it is repayable on demand.

8. 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 March 31, 2013 to be $1,693,637 (2012 - $1,676,998). The present value of the future reclamation obligation assumes an inflation rate of 2.5% and a discount rate of 4.0%, an undiscounted amount to settle the obligation of $1,758,000 and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

	March 31 2013	December 31 2012
Balance, beginning of year	$ 1,676,998	$ 1,270,746
Liabilities incurred in the period	-	352,840
Accretion expense	16,639	53,412
Balance, end of year	$ 1,693,637	$ 1,676,998

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized and issued shares

At March 31, 2013, the Company had unlimited authorized common shares and 42,461,083 shares outstanding (December 31, 2012 – 42,461,083). All per share amounts below are in Canadian dollars (CAD) which, at March 31, 2013, is equivalent to 0.9843 US dollars.

Stock options

The Company has an incentive stock option plan, pursuant to which its Board of Directors grants stock options, from time to time, to directors, officers, employees and certain consultants. The exercise price of each option is no less than the market price of the Company's common shares at the date of grant. The options can be granted for a maximum term of 10 years. The Company's Board of Directors determines the vesting requirements for options granted. The Company received shareholder approval at its 2009 Annual General Meeting to grant a maximum of 7,118,225 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 $56,798 for the three months ended March 31, 2013 (2012 - $435,380) 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:

	2012	2011
Risk-free interest rate	1.10%	1.10%
Expected life	3.24 years	3.24 years
Annualized volatility	76.96%	76.96%
Pre-vest forfeiture rate	10.00%	10.00%
Dividend rate	0.00%	0.00%

During the three months ended March 31, 2013, the Company granted no options (2012 – 245,000) options with a fair value of $nil (2012 - $294,993), 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, 2011	4,540,350	$ 4.19
Granted	340,000	3.00
Forfeited	(40,000)	3.00
Expired	(404,050)	5.08
Balance, December 31, 2012	4,436,300	4.03
Balance, March 31, 2013	4,436,300	$ 4.03

Expressed in United States dollars unless otherwise noted

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

Stock options (cont'd)

The following stock options were outstanding as at March 31, 2013:

	Options outstanding			Options exercisable	
Exercise price range	**Number of stock options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price CAD$**	**Number of stock options exercisable**	**Weighted average exercise price CAD$**
$2.00 - $3.04	624,000	2.52	2.58	428,250	2.40
$3.05 - $3.20	1,327,000	3.67	3.07	1,327,000	3.07
$3.21 - $4.77	595,300	2.64	3.87	491,975	3.94
$4.78 - $5.31	930,000	0.99	5.00	930,000	5.00
$5.32 - $5.45	960,000	1.61	5.45	960,000	5.45
	4,436,300	2.36	4.03	4,137,225	4.09

During the three months ended March 31, 2013 no options were granted. The weighted average fair value per stock option exercised for the three months ended March 31, 2012 was $1.56 per option.

As at March 31, 2013, the non-vested stock-based compensation expense not yet recognized was $137,739 which is to be recognized over the next 14.7 months.

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended March 31, 2013 and 2012:

a) paid or accrued professional fees of $nil (2012 - $124,110) to a director of the Company; and

b) paid management fees of $105,000 (2012 - $105,000) to a company controlled by the President and Chief Executive Officer of the Company of which $78,750 (2011 - $78,750) were capitalized and included in mine properties, plant and equipment and exploration and evaluation properties.

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

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) During the three months ended March 31, 2013, the Company acquired inventory at a cost of $1,223,235, acquired land at a cost of $80,000, incurred capital expenditures of $280,030 and incurred mine development expenditures of $2,684,202 through accounts payable. In addition, the Company capitalized $464,688 and $422,176 of amortization on mining equipment and the plant, respectively to mine development costs.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd)

b) During the three months ended March 31, 2012, the Company acquired inventory at a cost of $341,002, acquired land at a cost of $80,000, incurred plant construction expenditures of $201,482 and incurred mine development expenditures of $2,797,966 through accounts payable. In addition, the Company capitalized $338,566 and $523,874 of amortization on mining equipment and the plant, respectively to mine development costs.

12. 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 three months ended March 31, 2013 its principal source of funds is 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 three months ended March 31, 2013.

13. 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. The fair values of receivable and accounts payable and accrued liabilities approximate carrying values because of the short term nature of these instruments.

Credit Risk

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

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

Currency Risk

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

14. FINANCIAL INSTRUMENTS (cont'd)

Currency Risk (cont'd)

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

Interest Rate Risk

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

Liquidity risk

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

Price risk

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