DYNASTY METALS & MINING INC.

(the “Company”, or the “Corporation”)

MANAGEMENT’S DISCUSSION AND ANALYSIS OF THE COMPANY’S FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Date and Subject of this Discussion and Analysis

This discussion and analysis, made as of March 29, 2012, is integral to, and should be read in conjunction with, the Company’s audited financial statements for the years ended December 31, 2011 and 2010 (the “Audited Financial Statements”), and the Company’s Technical Reports dated October 30, 2007, August 21, 2006 , April 21, 2006, February 27, 2006, October 21, 2005, December 22, 2004, October 29, 2004 and October 22, 2004, each of which was prepared by an independent “qualified person”, as defined in National Instrument 43-101 (“NI 43-101”) of the Canadian Securities Administrators. These documents, and additional information relating to the Company, are available for viewing at www.sedar.com (the “SEDAR Website”).

Cautionary Statement Regarding Forward Looking Statements

This discussion and analysis and the documents incorporated by reference into this discussion and analysis contain forward-looking statements within the meaning of the United States *Private Securities Litigation Reform Act of 1995* concerning our planned activities for the current financial year, our plans to explore and develop the Zaruma Gold Project and the Jerusalem Project and to undertake exploration programs on the Dynasty Copper-Gold Belt, our estimated resources, production, capital costs and operating and cash flow estimates, and other matters. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using the words or phrases such as “expects,” “anticipates,” “plans,” “projects,” “estimates,” “assumes,” “intends,” “strategy,” “goals,” “objectives,” “potential” or variations thereof or stating that certain actions, events or results “may,” “could,” “would,” “might” or “will” be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be “forward-looking statements.” Statements concerning resources estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the property is developed. Forward looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking statements.

Cautionary Note to United States Investors

This discussion and analysis and the Company’s financial statements are prepared and presented in accordance with the rules and regulations that govern Canadian reporting issuers, as required by the Toronto Stock Exchange and applicable securities laws in Canada. The Company does not report to the United States Securities and Exchange Commission, and, in its public disclosure, it uses terms such as “measured”, “indicated” and “inferred” resources, which are not permitted terminology in the United States. In addition, United States investors are cautioned that the Company’s financial statements do not conform with, nor are they reconciled to, accounting principles generally accepted in the United States.

Ecuador Mining Legislation

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

- no limits on the number of concessions an entity can hold;
- concessions are limited to a term of 25 years but are renewable;
- a royalty of not less than five percent based on sales;

- clear timelines for project exploration and development; and
- a requirement for an exploitation contract with the government which will set out the specific terms and conditions of each mining operation.

In late 2010 the Ecuadorian Government passed a resolution establishing the protocols by which companies may make application to begin formal negotiations towards a contract settlement. Although the Company submitted this application in the first quarter of 2011 it is not currently possible to estimate when a definitive agreement may be reached, nor is it possible to predict the substantive terms and conditions that will be included in such agreement (see "Uncertain Mining Legislation" within the "Critical Risk Factors" section of this discussion and analysis).

The Company has elected to pay advance royalties to the government based on 5% of the sales of metals up until December 31, 2011. Since December 31, 2011, the Company has accrued for a royalty based on 5% from the sale of metals and currently expects to make a payment of this amount to the government in the third quarter of 2012.

Description of Business

The Company is a reporting issuer in the provinces of British Columbia, Alberta and Ontario Canada. On August 2, 2007 its securities were listed for trading on the Toronto Stock Exchange (the "Exchange") under the symbol "DMM".

The Company is in the business of acquiring, exploring and developing mineral concessions in Ecuador. Historically, the Company has funded substantially all of its operating and capital expenses with proceeds from the sale of capital stock. In the current year, mine development expenses and overheads have been partially funded from the sale of precious metals produced during mine construction at its Zaruma Gold Project. The Company has 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 from debt or equity financings, or through the profitable sale of capital assets, as required, neither of which is assured.

The Company's head and principal office is located at Suite 270, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. Its registered and records office is located at Suite 300, 204 Black Street, Whitehorse, Yukon Y1A 2M9. The Company also maintains an office in Quito, Ecuador.

The following table lists the Company's principal operating subsidiaries, their jurisdiction of incorporation and its percentage ownership of their voting securities:

Name	**Place of Incorporation**	**Percentage Ownership**
Empire Sun Investments Limited	British Virgin Islands	100%
Elipe S.A.	Ecuador	100% (1) (4)
Polimines Corporation	Panama	100% (1)
Golden Valley Planta S.A.	Ecuador	100% (2) (4)
Greentrade Ecuador Overseas Inc.	Panama	100% (1) (4)
Operaciones Greentrade S.A.	Ecuador	100% (3) (4)
Operaciones Greenmining S.A.	Ecuador	100% (3) (4)
Minsupport S.A.	Ecuador	100% (3) (4)

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

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

(3) Operaciones Greentrade S.A. (``Greentrade``), Operaciones Greenmining S.A. (``Greenmining``) and Minsupport S.A. (``Minsupport``) are 100% beneficially owned by Greentrade Ecuador. These entities were initially incorporated to administer the employee labour contracts. During 2009, these labour contracts were transferred to Elipe and Golden Valley.

(4) Pursuant to a recent change in Ecuadorian law, companies must have a minimum of two shareholders. As a result, Empire Sun transferred one share of Elipe to the Corporation to hold in trust for Empire Sun; the Corporation transferred ten shares (out of a total of 1,000 shares) of Golden Valley to a third party to hold in trust for the Corporation; and Greentrade Ecuador transferred one share (out of a total of 1,000 for Greentrade and a total of 800 for Greenmining and Minsupport) each of Greentrade, Greenmining and Minsupport to a third party to hold in trust for the Greentrade Ecuador.

The following is a brief description of the Company's principal properties:

Zaruma Gold Project

<u>*Zaruma Gold Project Properties*</u>
The Zaruma Gold Project comprises 45 concessions, located in the El Oro Province of southwestern Ecuador, in the vicinity of the towns of Zaruma and Portovelo. As of the date of this report, 42 of the concessions are 100% owned, one is 50% owned and one is 25% owned and subject to a concession sharing agreement (see below). The Company has title to the remaining concession and has paid the majority of applicable option payments on this concession.

The concession area covers 103 sq. km. of primarily agricultural land, at altitudes of 650 m to 1,600 m. Two of the concessions are subject to a 1% net smelter return royalty ("NSR Royalty") payable to a company controlled by a director, three concessions are subject to a 2% NSR Royalty payable to an arms length party and 39 are subject to a 1.5% NSR Royalty payable to 1570926 Alberta Ltd., which acquired the royalty from IAMGOLD Ecuador S.A. in 2011.

As stated, the Company owns an undivided 25% interest in two mining concessions and 23 hectares of land to be used for mine portal access (also referred to as the "mines" or the "declines"). These concessions connect the Company's 100% owned concessions and are along strike from concessions that contain some of the Company's previously estimated resources. A concession sharing agreement, common in Ecuador, permits the Company to mine the concessions in co-operation with small scale mining groups that hold the remaining 75% interest, and retain 100% of the revenue from any material mined.

Initial estimates of gold resources on the Zaruma Gold Project, including the Zaruma property and the associated Portovelo district, are contained in a report dated October 22, 2004, prepared by Miroslav Kalinaj, MSc, and updated resources estimates are contained in a report dated October 21, 2005, prepared by Allen J. Maynard, BappSc(Geol), MAIG, MAusIMM. The authors of both reports are independent "qualified persons", as defined by NI 43-101. Set out in the following table is a summary of the gold resources estimated by these reports:

Resource Category	Tonnes	Gold (g/t)	Gold (ounces)
Measured	1,568,000	13.93	702,100
Indicated	915,000	13.87	408,100
Inferred	3,382,000	12.72	1,383,400

Although the Company has started mining, processing and selling gold at the Zaruma project, a significant proportion of material mined to date has not been part of the resource. It is therefore the Company's belief that there has been no material impact on the estimated resource as a result of the pre-commercial production mining that has taken place to date. The resource report, which was prepared in 2004, is calculated based on a 5 gram per ton cut-off grade.

Management believes that the high-grade polymetallic vein system to which these resources relate extends over a 15 km north-south and 5 km east-west trend and that there is significant potential to increase these resources. Future exploration will be focused on the development of down-dip extensions of known, bonanza-grade, ore shoots, the discovery of new, parallel, high-grade ore shoots and the identification, through mapping and trenching and drilling, of new veins to the north, east and west of known veins.

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.

Zaruma Gold Plant Operations

The plant is currently operating, on an intermittent basis at less than scheduled capacity during ongoing mine construction, using a combination of resource and non-resource stockpiled material. (see "Zaruma Gold Project Mine Development" below).

The Company continues to make plant upgrades, where warranted, and improve production logistics through testing. Significant improvements made to the plant, since it was commissioned in the second half of 2010, include doubling the capacity of the gold stripping section, the construction of a sub-station which now connects the plant to the main power grid and the construction of additional tailings facilities. The installation of the substation provides continuous electricity, allows for unrestricted expansion capability, reduces the Company's reliance on diesel generators and is expected to reduce future operating expenditures. The construction of the new tailings facility, the use of which commenced in late 2011, is designed to have adequate capacity for between 3 to 4 years of plant operations.

Additionally, in the fourth quarter of 2011 the Company commenced the construction of a gravity concentration circuit to enable the more efficient processing of mined material containing the higher grade coarse gold. The circuit is expected to become operational late in the second quarter of this year, providing certain equipment the Company has ordered from overseas is delivered on schedule. The Company is currently stockpiling the higher grade mined material until the gravity concentration circuit is operational.

During the year ended December 31, 2011 the Company sold approximately 20,500 ounces of gold and 64,000 ounces of silver for gross proceeds of approximately $34.2 million. Currently, for accounting purposes until the project reaches commercial production, the sale of precious metals, net of production expenses, is credited to mine development costs and not recorded in the Company's consolidated statements of operations (see "Critical Accounting Estimates and Policies" of this discussion and analysis).

As at December 31, 2011 the Company had approximately 1,725 ounces of gold contained in dore bars, which is recorded as inventory in the consolidated financial statements, net of an estimated 5% royalty payable to the government of Ecuador, a 1.5% net smelter return royalty payable to 1570926 Alberta Ltd and estimated refining and transportation fees. The Company has not recorded the estimated amount of inventories in the circuit or stockpiled ore as work in progress as at December 31, 2011 and will not record work in progress inventories until the project reaches commercial production.

However, the Company estimates that it currently holds approximately 25,000 tonnes of stockpiled mined material on site. A large proportion of the stockpile was accumulated during the voluntary suspension of plant operations in the third quarter of 2011 pending an investigation into the Company's compliance with applicable environmental standards, as initiated by the Regional Prosecutors Office. As previously disclosed a full investigation, including a report prepared by a specialized investigation team for environment matters from the Head Office of the National Prosecutor of Ecuador, concluded that there was no evidence to support the allegations which were subsequently revoked with all allegations of environmental non-compliance being dismissed.

Subsequent to December 31, 2011, and up to the date of this report, the Company exported an additional 4,568 ounces of gold and 7,085 ounces of silver with an aggregate approximate value of $7.9 million. During this period, as mentioned above, the Company made the decision not to process the higher grade mined material until the gravity concentration circuit is operational to ensure a reasonable recovery of gold contained in this material. As a result, the Company has been primarily processing lower grade material in 2012 to date.

As at December 31, 2011, total capitalized capital expenditures relating to the construction and commissioning of the plant as well as operating the plant during the pre-commercial production phase while the mines are being developed was approximately $21 million. With the exception of the current construction of the gravity concentration circuit, with an estimated budget of $0.5 million, the Company does not currently anticipate any significant additional capital expenditure will be required, unless a decision is made to expand the capacity of the wet section of the facility. The current estimated capital expenditure to upgrade the wet section, so that it is capable of processing 800,000 tonnes per annum, is approximately $3 million.

Zaruma Gold Project Mine Development
The Company continues construction of three mines to access the resource and is carrying out further exploration activities to identify sites for new mines should they be required in the future. The non-existence of a modern mining infrastructure in Ecuador, the uncertainty caused by the transition to a new mining law as well as the Company funding the mining operations internally from the sale of gold and silver during the pre-commercial phase (rather than by diluting shareholders through an equity financing) has adversely impacted mining operations to date.

These circumstances forced the Company to rely upon internal technical resources rather than using experienced contract service providers typically engaged to construct mines and service mobile equipment. To date the Company has hired and trained a pre-dominantly local workforce of approximately 300 employees working on mining operations, which will be of future benefit but has slowed mine development progress to date.

The Company continues to concentrate development activities on the main mine "Cabo de Hornos" which provides the best access to the in situ resource and where the installation of an electrical substation is now allowing the mine to be powered from the main grid. To date, a significant amount of the material mined has come from old workings, generally not included in our resource estimate, using hand held drilling methods. The Company is currently mining and delivering to the plant an average of 450 tonnes of material per day. The Company expects to increase production in the near term once it commences developing, mining and delivering material to the plant from its other two mines, "Barbasco" and "Ayampamba". This outlook is based on current operations, mine plans and exploration results, which are subject to change (see "Critical Risk Factors" section of this discussion and analysis) and as such cannot be assured.

As at December 31, 2011 total capitalized capital expenditure on the evaluation and exploration of the Zaruma project as well as mine development activities was approximately $23 million (which is net of gold and silver sales of approximately $40 million). Additionally, mining equipment has been purchase for an aggregate amount of approximately $10 million.

Jerusalem Project
The Jerusalem Project comprises one, 100% owned concession, located in the Zamora Chinchipe Province of southeastern Ecuador, about 40 km east of Zamora. The concession area covers 2.25 sq. km. The altitude of the property ranges from 1,400 m to 1,900 m above sea level. Dense rain forest and steep terrain characterize the area.

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

Historical work completed on the property by TVX Gold Inc. ("TVX") includes 10,825 m of diamond drilling, 6,375 m of drifting, including a 725 m access tunnel to discovered veins, and several thousand underground channel and drill core vein samples, at an estimated cost of US$16 million. The Company acquired the data compiled by TVX as part of its purchase of the concession.

Estimates of resources on the Jerusalem property are contained in two reports, dated October 29, 2004 and December 22, 2004, prepared by Allen J. Maynard, BappSc(Geol), MAIG, MAusIMM, an independent "qualified person", as defined by NI 43-101, and are summarized in the following table:

Resource Category	Tonnes	Gold (g/t)	Gold (ounces)	Silver (g/t)	Silver (ounces)
Measured	602,300	12.4	239,730	90	1,760,400
Indicated	864,400	12.4	345,370	95	2,627,700
Inferred	1,927,600	11.5	710,130	101	6,276,470

The Company has presented applications under the prior legislation to, and is waiting for a response from, the Ecuador government for both mining and plant operating permits. The timing for approval is uncertain and it is not currently apparent whether the new Mining Law will impose additional permit application requirements. The Company will consider reviewing the resource and updating the economic assessment for the Jerusalem Project on the receipt of the permits and an exploitation contract with the Ecuadorian Government.

Dynasty Copper-Gold Project

The Dynasty Copper-Gold Project lies within a mineralized corridor, approximately 90 kilometres ("km") long and 20 km wide, in the Loja Province of southwestern Ecuador. To date, the Company has identified eight mineralized porphyry-style alteration zones within this corridor each associated with a system of gold and silver vein swarms. The total project area covers 979.81 square kilometres ("sq. km.") and consists of fifty one, 100% owned concessions at altitudes ranging from 600 metres ("m") to 1,800 m above sea level. Scarce vegetation and shallow soils dominate the area. The Company has focused its exploration efforts on two areas referred to as: the "Dynasty Goldfield" and "Copper Duke.

Five of the project concessions are subject to a 1% NSR Royalty, payable to a company controlled by a director. The Company has no work obligations with respect to the project property, but expects to focus most of its future exploration work on it.

The Dynasty Goldfield

Estimates of gold and silver resources at the Dynasty Goldfield are contained in two technical reports dated April 21, 2006 and October 30, 2007 that were prepared by Allan J. Maynard, BAppSc(Geol), MAIG, MAusIMM, an independent, "qualified person", as defined by NI 43-101, and are summarized in the following table, which has been filed on the SEDAR Website:

Resource Category	Tonnes	Gold (g/t)	Gold (ounces)	Silver (g/t)	Silver (ounces)
Measured	3,155,000	4.63	470,000	35	3,560,000
Indicated	3,515,000	4.79	541,000	38	4,360,000
Inferred	7,652,000	4.68	1,151,700	34	8,337,000

The main vein systems discovered so far within the Dynasty Goldfield are located in the Papayal, Cerro Verde and Trapicillo-Cola areas. The Company has drilled a total of 201 holes to date at the Dynasty Goldfield for a total of 26,773 meters of which 175 holes have been drilled in Cerro Verde area. The Company is not currently drilling at the Dynasty Goldfield but will review these plans in normal course.

In addition to the approvals to undertake exploration and drilling at the Dynasty Goldfield, the Company has also received approval to open two declines and mine ore at these concessions. Given the proximity of the Dynasty Goldfield to the Zaruma Gold Project, and with the objective of filling the capacity of the Zaruma processing plant as quickly as possible while continuing to develop the Zaruma resource further, the Company is assessing the economics of transporting material from the Dynasty Goldfield to Zaruma for processing in the future. This would also allow the Company to train a local mining workforce and establish a mining presence in the region.

Copper Duke

The Copper Duke project area includes 11 core concessions covering approximately 100 sq. km. These core concessions cover a number of gold and porphyry occurrences and are located in Catacocha (Paltas) county, Province of Loja, approximately 60 km southwest of the nearest commercial airport.

To date, a major copper-gold porphyry complex, El Huato, and an additional four porphyry copper systems and two gold targets have been identified. Of the porphyry copper systems, Loma Redonda has been explored, while three others, Rio Catamayo, Landaluma and Barbasco are at the prospecting stage. Both of the gold targets, Ningomine and El Palton, have previously been actively explored.

The El Huato copper-gold porphyry complex was discovered by a United Nations survey in 1968. It comprises volcano-sedimentary rocks overlying other intrusives. Sub-vertical to sub-horizontal veining and stockworks follow the stratification of these sediments striking southwest and southeast for a known length of 3.5 km.

The Company is not currently drilling at Copper Duke but will review these plans in normal course.

Results of Operations

The Company incurred a loss of $7,657,089 for the year ended December 31, 2011, as compared to a loss of $6,004,961 for the year ended December 31, 2010. These losses include non-cash-based deductions for stock-based compensation and amortization and accretion in the aggregate amounts of $3,539,585 and $2,409,858, respectively. Excluding non-cash-based deductions, operating expenses for the year ended December 31, 2011 increased by $672,490, primarily attributable to the effect of:

- office and general expenses increased by $239,549 as compared to the same period last year as a result of increased administrative duties required to manage the increase in employees as production and activity increases and from the additional expenditure and resources needed to manage compliance with the new mining law and the need to negotiate an exploitation contract;

- Professional fees increased by $228,310 as compared to the same period last year primarily as a result of the need to engage additional lawyers and other professionals to ensure the Company's compliance in its transition to the new mining law and regulations and the requirement to engage legal counsel to defend the unfounded allegations of non-compliance with applicable environmental standards in the third quarter of 2011 (see "Zaruma Gold Project" of this discussion and analysis).

The Company did not record revenues other than interest income during the periods. Interest income from funds on deposit was $14,646 for the year ended December 31, 2011, as compared to interest income of $39,504 for the year ended December 31, 2010. The decrease in interest income is a result of a lower average cash balance for the year ended December 31, 2011. Proceeds from the sale of metals, of approximately $34.2 million for the year ended December 31, 2011 have been, and will continue to be, netted against mine development costs until the commencement of commercial production (see "Critical Accounting Estimates and Policies" section of this discussion and analysis).

Furthermore, the Company incurred a taxation liability of approximately $1.7 million for the year ended December 31, 2011, compared to $nil for the year ended December 31, 2010. Since the Company is not yet in commercial production under accounting guidelines this tax expense is capitalized to mine development costs. The taxation expense arose in Ecuador and comprises of community and employee participation tax and income tax. The community and employee participation tax is charged at 15% of earnings before tax and under Ecuadorian law companies are not entitled to apply any loss carry forwards or amortization of capital investments to reduce the amount eligible for the tax. Income tax is calculated at 23% of earnings after deducting the community and employee participation tax and other deductions, including the amortization capital investments and capital losses carried forward. However, under Ecuadorian tax law the amount of capital losses that can be applied in any given year cannot reduce the earnings that are eligible for income tax by more than 25%.

Fourth Quarter

The Company incurred a loss of $3,222,978 for the three months ended December 31, 2011, as compared to a loss of $1,619,651 for the three months ended December 31, 2010. Excluding the effects of non-cash based deductions, the loss for the three months ended December 31, 2010 increased by approximately $28,656.

Summary of Quarterly Results

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

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues	$ -	$ -	$ -	$ -
Net loss	$(3,222,978)[(1)]	$(1,526,010)[(2)]	$(1,347,584)[(3)]	$(1,521,928)[(4)]
Net loss per share	$(0.08)	$(0.04)	$(0.03)	$(0.04)

	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenues	$ -	$ -	$ -	$ -
Net loss	$ (1,619,651)[(5)]	$(1,149,469)[(6)]	$(1,721,076)[(7)]	$(1,603,271)[(8)]
Net loss per share	$(0.04)	$(0.03)	$(0.04)	$(0.04)

(1) The Company's loss during this period includes non-cash deductions of $2,195,226 and $170,408 for stock-based compensation, in connection with the granting of 1,327,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(2) The Company's loss during this period includes non-cash deductions of $209,770 and $114,428 for stock-based compensation, in connection with the granting of 34,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(3) The Company's loss during this period includes non-cash deductions of $291,057 and $133,972 for stock-based compensation, in connection with the granting of 148,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(4) The Company's loss during this period includes non-cash deductions of $250,554 and $174,169 for stock-based compensation, in connection with the granting of 179,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(5) The Company's loss during this period includes non-cash deductions of $449,363 and $166,653 for stock-based compensation, in connection with the granting of 155,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(6) The Company's loss during this period includes non-cash deductions of $369,161 and $120,403 for stock-based compensation, in connection with the granting of 205,300 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(7) The Company's loss during this period includes non-cash deductions of $399,126 and $111,000 for stock-based compensation, in connection with the granting of 80,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(8) The Company's loss during this period includes non-cash deductions of $698,086 and $96,067 for stock-based compensation, in connection with the granting of 140,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

The loss during each quarter, excluding provisions for stock-based compensation as set out in the foregoing notes, is primarily the result of administrative activities, including expenses relating to professionals, administration, regulatory compliance, shareholder communications and certain field office expenses and travel. These costs will vary from quarter to quarter, depending upon the Company's activities.

Capital Expenditures

Exploration and Evaluation Properties

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

During the year ended December 31, 2011, the Company spent a total of $1,048,144 in connection with the exploration and maintenance of its mineral properties, compared to $1,143,096 for the year ended December 31, 2010.

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

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, January 1, 2011	$ 9,290,426	$ 1,484,632	$ 170,169	$ 10,945,227
Costs				
Camp supplies and field costs	18,490	-	-	18,490
Geological consulting	71,719	11,952	-	83,670
Laboratory fees	-	-	-	-
Mineral concession rights	761,987	6,974	-	768,961
Project administration	95,691	32,539	-	128,230
Travel and related costs	47,723	1,070	-	48,793
Additions for the year	995,610	52,534	-	1,048,144
Balance, December 31, 2011	$ 10,286,036	$ 1,537,166	$ 170,169	$ 11,993,371

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

Mine Properties, Plant and Equipment

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

	Mines Under Construction	Plant and Equipment	Land and Buildings	Total
Cost				
Balance as at January 1, 2010	$ 18,586,478	$ 25,878,865	$ 3,267,747	$ 47,733,090
Additions	16,016,861	5,587,447	25,000	21,629,308
Disposals	-	(217,900)	-	(217,900)
Net-off of pre-commercial sales	(7,908,876)	-	-	(7,908,876)
Balance as at December 31, 2010	26,694,463	31,248,412	3,292,747	61,235,622
Additions	31,934,711	1,285,810	-	33,220,524
Disposals	-	(457,327)	-	(457,327)
Net-off of pre-commercial sales	(34,185,254)	-	-	(34,185,254)
Balance as at December 31, 2011	**$ 24,443,920**	**$ 32,076,895**	**$ 3,292,747**	**$ 59,813,562**
Accumulated amortization				
Balance as at January 1, 2010	$ -	$ 1,428,659	$ 62,356	$ 1,491,015
Amortization	-	2,700,960	31,287	2,732,247
Disposals	-	(26,884)	-	(26,884)
Balance as at December 31, 2010	-	4,102,735	93,643	4,196,378
Amortization	-	3,874,496	31,287	3,905,783
Disposals	-	(398,243)	-	(398,243)
Balance as at December 31, 2011	**$ -**	**$ 7,578,988**	**$ 124,930**	**$ 7,703,918**
Net book value				
At January 1, 2010	$ 18,586,478	$ 24,450,206	$ 3,205,391	$ 46,242,075
At December 31, 2010	$ 26,694,463	$ 27,145,677	$ 3,199,104	$ 57,039,244
At December 31, 2011	$ 24,443,920	$ 24,497,907	$ 3,167,817	$ 52,109,644

Mines under construction costs relate to the Zaruma Gold Project and includes all exploration and evaluation expenditure, all direct costs associated with the development of portals to access to the Company's resource and the pre-commercial operating costs of mining and processing mined material from July 1, 2010 in the pre-commercial phase. The total expenditure on these activities for the year ended December 31, 2011 was approximately $31.9 million. During the pre-commercial phase, proceeds from the sale of any gold and silver made during the nine months ended September 30, 2011 (totaling approximately $34.2 million) has been netted of against the capitalized mines under construction balance.

Capital expenditure on the processing plant during the year ended December 31, 2011 was approximately $0.8 million primarily related to the construction of a substation to connect the plant to the national power grid.

Selected Annual Information

The following selected annual information, prepared under IFRS, is for the years ended December 31, 2011, 2010 and 2009:

Year Ended December 31	2011	2010	2009
Revenues	$ -	$ -	$ -
Loss	$ 7,657,089	$ 6,004,961	$ 7,224,239
Loss per share	$ 0.18	$ 0.15	$ 0.20
Working capital	$ 6,392,095	$ 6,300,764	$ 7,966,257
Mine properties, plant and equipment	$ 52,109,644	$ 57,039,244	$ 46,242,075
Exploration and evaluation properties	$ 11,993,371	$ 10,945,227	$ 9,977,078
Total assets	$ 75,442,122	$ 76,784,978	$ 65,263,002
Long-term debt	$ -	$ -	$ -

The Company recognized no revenues from operations during these periods although it made gold and silver sales totaling $34.2 million during the year ended December 31, 2011 (2010 - $7.9 million). Until such time as the Company is in commercial production the proceeds from any sales will continue to be credited to mine development costs (see "Critical Accounting Estimates and Policies" section of this Management, Discussion and Analysis).

The losses for these years are primarily the result of head office and field office expenses, including expenses relating to administration, regulatory compliance, professional fees and taxation. They also include non-cash deductions for amortization and stock based compensation.

Financial Condition, Liquidity and Capital Resources

As at December 31, 2011, the Company had cash resources of $6.2 million and working capital (current assets less current liabilities) of $6.4 million, which included $2.7 million of gold and silver in dore form in inventory which was available for sale. The Company has approximately $4 million in cash and cash equivalents as at the date of this report. The Company expects to use these funds together with cash received from any future sale of precious metals to further mine development activities.

The Company's cash position increased by approximately $3.1 million during the year ended December 31, 2011. Of this, $2.3 million is the amount by which cash receipts from the sale of precious metals exceeded all administration, operating and capital expenditures during the period. The Company received an additional $0.8 million from the exercise of options.

Subsequent to December 31, 2011, and up to the date of this report, the Company has sold an additional 4,568 ounces of gold and 7,085 ounces of silver for approximately $7.9 million.

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

During the year ended December 31, 2011, the Company raised $0.8 million from the exercise options (see "Additional Information"), sold precious metals for approximately $34.2 million and spent cash in the approximate amount of $32 million on its mineral properties, plant construction, mine development, other capital assets, and operations.

Management reviews each of the Company's properties periodically and amends the Company's exploration and development plans and budgets, accordingly. As at the date of this report, the Company does not anticipate that it will require additional capital over the next twelve months, to meet its primary objective of developing the Zaruma Gold Project into a commercially viable operation. However, the Company has 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.

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 2011	December 31 2010
Executive salaries and short-term benefits[1]	$ 475,000	$ 450,000
Non-executive directors fees	-	-
Fees paid to companies affiliated with non-executive directors[2]	384,041	253,947
Stock-based compensation	2,162,169	867,206
	$ 3,021,210	$ 1,571,153

(1) $225,000 and $225,000 of these expenses in the year ended December 31, 2011 and 2010, respectively, were capitalized and included in either mineral property, mines under construction or plant construction costs.

(2) $213,326 and $158,980 of these expenses in the year ended December 31, 2011 and 2010, respectively, were capitalized and included in mines under construction.

Critical Accounting Estimates and Policies

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

Estimates, risks and uncertainties

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 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.

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.

Mineral exploration, evaluation and development properties

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 the completion of operational commissioning of major mine components has been reached, operating results are being achieved consistently for a period of time, and there are indicators that these operating results will continue.

Mine properties, plant and equipment

Upon completion of mine construction, the assets are transferred into properties, plant and equipment or mine properties. Items of property, plant and equipment and mine properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

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.

When a mine construction project moves into the stage of operating in the way intended by management, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable resource development.

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 Consolidated Statements of Loss and Comprehensive Loss.

Stock-based compensation

Certain employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of stock options. The cost of these stock options is measured using the estimated fair value at the date of the grant determined using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility. The expected term of options granted is determined based on historical data on the average hold period before exercise, expiry or cancellation. Expected volatility is estimated with reference to the historical volatility of the share price of the Company. These estimates involve inherent uncertainties and the application of management 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 the goods or services received cannot be estimated reliably, the share based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Income taxes

The Company follows the asset and liability method whereby deferred tax assets and liabilities are recognized for 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 probable.

New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, including IAS 1 *Presentation of Financial Statements,* IAS 19 *Employee Benefits,* IFRS 9 *Financial Instruments,* IFRS *10 Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interest of Other Entities,* IFRS 13 *Fair Value Measurement,* and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 *Financial Instruments* ("IFRS 9"), which becomes mandatory for the Company's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The extent of the effects of IFRS 9 on the consolidated financial statements have not been determined

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance to IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three months ended March 31, 2011 was the Company's first reporting period under IFRS.

Our IFRS conversion team identified four phases to our conversion: diagnostic, development and planning, implementation and post-implementation. We are now completed our IFRS conversion project through implementation. Post-implementation will continue in future periods, as outlined below.

First time adoption exemptions applied

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening statement of financial position on our transition date of January 1, 2010, and allows certain exemptions on the transition of IFRS. The elections we have chosen to apply and that are considered significant to the Company include:

- Applying IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1") as of the date of transition to IFRS. IFRIC 1 requires specified changes in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life.

- IFRS 1 permits first-time adopters to not apply IFRS 2, "Share-based Payments", to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. The Company elected to apply IFRS 2 to equity instruments granted after November 7, 2002 that had not vested by the transition date.

- Applying IFRS 1 to eliminate the cumulative foreign translation balance as of the date of transition to IFRS. This balance would be combined with the deficit balance in shareholders' equity.

- IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets such as property, plant and equipment. IFRS 1 provides an exemption whereby the Company may prospectively capitalize borrowing costs for qualifying assets for which the commencement date is on or after January 1, 2010. The Company has elected this exemption and therefore has not capitalized borrowing costs previously expensed under Canadian GAAP.

- In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Presented below is reconciliation to IFRS of assets, liabilities, equity, and net loss of the Company from those previously reported under Canadian GAAP. There are no material differences between the cash flow statements prepared under IFRS and Canadian GAAP.

	December 31 2010	January 1 2010
Total assets under Canadian GAAP (previously reported in CAD$)	$ 82,067,659	$ 70,903,839
Total assets under Canadian GAAP (restated in US$)	$ 76,314,855	$ 64,792,879
Adjustment – Asset retirement obligation (i)	470,123	470,123
Total assets under IFRS	$ 76,784,978	$ 65,263,002

	December 31, 2010	January 1, 2010
Total liabilities under Canadian GAAP (previously reported in CAD$)	$ 3,083,462	$ 1,735,911
Total liabilities under Canadian GAAP (restated in US$)	$ 3,098,665	$ 1,683,651
Adjustment – Asset retirement obligation (i)	508,449	491,359
Total liabilities under IFRS	$ 3,607,114	$ 2,175,010
Total equity under Canadian GAAP (previously reported in CAD$)	$ 78,984,197	$ 69,167,928
Total equity under Canadian GAAP (restated in US$)	$ 73,216,190	$ 63,109,228
Adjustment – Asset retirement obligation (i)	(38,326)	(21,236)
Total equity under IFRS	$ 73,177,864	$ 63,087,992

	For the Year Ended December 31 2010
Comprehensive loss under Canadian GAAP (previously reported in CAD$)	$ (6,643,783)
Comprehensive loss under Canadian GAAP (restated in US$)	$ (6,097,702)
Adjustment – Asset retirement obligation (i)	(17,090)
Adjustment – Stock-based compensation charges (ii)	109,831
Total net loss under IFRS	$ (6,004,961)

Provision for closure and restoration

Under Canadian GAAP, the provision for closure and restoration is discounted based on the credit adjusted risk free rate. Under IFRS, the provision for closure and restoration is discounted based on current risk free discount rate. Accordingly, the Company recorded an adjustment to increase the provision for closure and restoration asset and liability by $470,123 as at January 1, 2010 and December 31, 2010.

IFRS 1 provides the option to measure the restoration provision at the Transition Date in accordance with the requirements of IAS 37. Accordingly the Company re-measured the provisions as at Transition Date under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date which the liability first arose. The Company did this using best estimates of the historical rate-adjusted discount rates, and recalculated the accumulated amortization and depletion under IFRS up to the transition date. The resulting difference in the accretion of the provision for closure and restoration recorded an adjustment to increase the provision for closure and restoration and retained loss by $17,090 for the year ending December 31, 2010.

Stock-based compensation charges

Under Canadian GAAP, stock-based compensation expenses can be calculated based on straight line method or graded method. Under IFRS, only the graded method is permitted. As the Company historically calculated stock based compensation charges using the straight line method, the Company adopted the graded method upon the IFRS transition. The quantitative differences between the methods were recognized in stock-based compensation charges on the Consolidate Statement of Loss and Comprehensive Loss, Contributed Surplus and Capital Stock within the Statement of Changes in Shareholders' Equity.

Upon transition on January 1, 2010, a reclassification adjustment was recorded to increase deficit and to increase contributed surplus by $1,681,010 and to decrease capital stock and to increase contributed surplus by $306,959. For comparative purpose, for the year ended December 31, 2010, an adjustment was recorded to decrease stock-based compensation charges expense by $109,831.

Mine properties, plant and equipment

Upon transition to IFRS, producing mineral properties are now presented in mine properties, plant and equipment in accordance with IAS 16 "Property, plant and Equipment". This resulted in the reclassification of $6,764,533 and $6,477,947 from exploration and evaluation properties to mine properties, plant and equipment as at December 31, 2010 and January 1 2010, respectively.

Additionally, upon transition to IFRS, mine development costs are now presented in mine properties, plant and equipment in accordance with IAS 16 "Property, plant and Equipment". This resulted in the reclassification of $19,929,930 and $12,108,530 from mine development costs to mine properties, plant and equipment as at December 31, 2010 and January 1 2010, respectively.

Exploration and evaluation assets continue to be classified as mineral properties as per the requirements of IFRS 6 "Exploration and evaluation of mineral resources".

Shareholders' equity

Upon transition to IFRS, the cumulative translation adjustment balance of $1,039,436 was combined with the deficit balance in shareholders' equity.

Post-implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. We note that the standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, we expect that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, financial instruments, and leases. We also note that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact our financial statements primarily in the areas of capitalization of exploration costs and disclosures. We have processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as they are drafted and published.

Critical Risk Factors

The exploration and development of mineral deposits involves certain significant risks not within the control of management. In addition to those risks discussed elsewhere in this report, critical risk factors affecting the prospects of the Company include, but are not limited to, the following:

Operating and Liquidity Risk
The Company is an early development stage company which is not yet in commercial production. Historically, the Company has funded substantially all of its operating and capital expenses with proceeds from the sale of capital stock. In the current year, mine development expenses and overheads have been partially funded from the sale of precious metals produced during

mine construction at its Zaruma Gold Project. The Company has 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 from debt or equity financings, or through the profitable sale of capital assets, as required, neither of which is assured.

Commodity Prices
The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, world supply of mineral commodities, consumption patterns, sales of gold by central banks, forward sales by producers, production, industrial and jewellery demand, speculative activities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production to be impracticable.

The Company's revenues and earnings also could be affected by the prices of other commodities such as fuel and other consumable items, although to a lesser extent than by the price of gold. The prices of these commodities are affected by numerous factors beyond the Company's control.

Risks Associated with Global Financial Conditions
Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the Corporation's common shares could continue to be adversely affected.

Foreign Currency Risk
The Company's corporate head office is in Vancouver, Canada and the Company raises all of its funds in Canadian dollars and maintains a significant portion of its funds in Canadian dollars. The majority of the Company's operations are in Ecuador where the currency is the US dollar. The ongoing credit crisis has resulted in significant fluctuation in the value of the Canadian dollar compared to the US dollar exposing the Company to significant currency risk.

Property Title Risk
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.

Economic Risk
The commercial viability of any mineral deposit depends on many factors, such as its size, grade and proximity to infrastructure. Government regulation, taxes, royalties, land tenure, land use, environmental protection and reclamation and closure obligations all also affect the economic viability of a particular mineral deposit.

Litigation Risk
The Company is subject to litigation and legal proceedings arising in the normal course of business and may be involved in disputes with other parties in the future which may result in litigation. The causes of potential future litigation cannot be known and may arise from, among other things, business activities and environmental laws. The risk of such litigation is, in part, a consequence of doing business under the current political and juridical climate in Ecuador. The results of litigation cannot be predicted with certainty. If the Company is unable to resolve these disputes favourably, they may result in a material adverse impact on the Company's financial condition, cash flow and results of operations.
In the event of a dispute involving the foreign operations of the Company, the Company may be subject to the exclusive

jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada.

Foreign Country and Political Risk
All of the Company's mineral properties are located in Ecuador, South America which has specific risks that may adversely affect the Company's business and results of operations, and which are different from, and in many cases, greater than, comparable risks associated with similar operations within North America. The political and economic environment in Ecuador has been unstable in the past, and the country has been subject to strikes and general civil unrest. There can be no assurance that the political or economic environment in Ecuador will be stable in the future. Risks associated with political or economic instability include, but are not limited to, military repression, high rates of inflation, currency fluctuations, crime, corruption and possible political or economic instability which may result in the impairment or loss of mineral concessions or other mineral rights. Mineral exploration and mining activities may be affected in varying degrees by political instability and government regulations relating to the mining industry.

Changes in resource development or investment policies or shifts in political attitude in Ecuador may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, royalties on mineral production, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The effect of these factors cannot be accurately predicted.

The possibility that current, or a future, government, its agencies or any other authoritative body may adopt substantially different policies or take arbitrary action which, whether legitimate or not, might halt exploration, production or other of the Company's operations, extend to the nationalization of private assets or the cancellation of contracts, the cancellation of mining and exploration rights and/or changes in taxation treatment cannot be ruled out, any of which could have a material and adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Currently, the regulatory system in Ecuador contains many inconsistencies and contradictions. Many of the laws provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. These factors mean that even the Company's best efforts to comply with applicable laws may not always result in compliance or may result in arbitrary allegations and legal proceedings. Consequences and relief sought may also be disproportionate to the alleged violation. The uncertainties, inconsistencies and contradictions in the laws of Ecuador and their interpretation and application could have a material adverse effect on the Company's business, business prospects, and results of operations.

Uncertain Mining Legislation
In April 2008, the Mining Mandate invoked a suspension of activities on most mining concessions in Ecuador while the new Mining Law was being approved.

The new Mining Law is now in effect and states that each company must negotiate an exploitation contract with the government. This exploitation contract is expected to include, among other items, the royalty payable to the government. There is no assurance the Company will be able to agree on an exploitation contract and royalty rate that will not have an adverse affect upon the Company's future operations.

Mining and Resource Risks of Exploration and Development
Some of the properties in which the Company has an interest or the right to earn an interest are in the exploration stages only and are without a known body of commercial ore. As the Company is principally an exploration and early development stage company, the Company currently has little revenue, and therefore a history of losses. The level of profitability of the Company in future years will depend to a great degree on precious and base metal prices, the ability of the Company to meet expected production levels of the Zaruma Gold Project, and whether any of the Company's other exploration stage properties can be brought into production.

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will be in part directly related to the cost and success of the Company's exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

It is impossible to ensure that future exploration programs and feasibility studies on the Company's existing mineral properties will establish reserves. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which cannot be predicted and which have been highly volatile in the past; mining, processing and transportation costs; perceived levels of political risk and the willingness of lenders and investors to provide project financing; and governmental regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting materials, foreign exchange, environmental protection and reclamation and closure obligations. The effect of these factors cannot be accurately predicted, but any one, or a combination of, these factors may cause a mineral deposit that has been mined profitably in the past, to become unprofitable. The Company is subject to the risks normally encountered in the mining industry, such as unusual or unexpected geological formations as well as political and economic risks associated with developing nations. The Company may be subject to liability for pollution or against other hazards against which it cannot insure or against which it may elect not to insure.

The development of mineral properties is affected by many factors, some of which are: the cost of operations; variations in the grade of ore; fluctuations in metal markets; costs of extraction and processing equipment; and government regulations, including without limitation, regulations relating to royalties, allowable production, importing and exporting of minerals, foreign exchange and environmental protection. Depending on the price of minerals, the Company may determine that it is impractical to commence or, if commenced, continue commercial production. Mining costs are rising in the current world market, although the effect is somewhat ameliorated by lower labour costs in Ecuador.

Project-specific risks associated with the Jerusalem Project and Zaruma Gold Project are: uncertainty in respect of the tonnage and grade of mineralization in areas of previous mining; and the risk of dilution and productivity in gold recovery, which are fairly high in high-grade narrow vein operations.

Uninsured or Uninsurable Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions and hazards, industrial accidents, labour disputes, adverse property ownership claims, unusual or unexpected geological conditions, ground, slope or pit wall failures, rock bursts, cave-ins, fires, changes in the regulatory environment, political and social instability, and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and legal liability.

The Company does not currently maintain insurance for many of its assets, including the processing plant at the Zaruma Project. This is due to the relatively high premium costs coupled with poor availability of coverage and wide-ranging exclusions. Insurance against risks such as loss of title to mineral properties, environmental pollution, or other hazards as a result of exploration and production which are generally not available to the Company or to other companies in the mining industry on acceptable terms, will be evaluated on a periodic basis for change in availability and cost. Should the Company become subject to liability for pollution or other hazards or should an event occur that is not fully covered, or covered at all, by insurance, it could have a material adverse effect on the Company's financial conditions, results of operations and cash flows, and could lead to a decline in the value of the Company's securities.

Environmental and other Regulatory Risk

The Company's activities are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments.

Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Companies engaged in exploration and development activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for exploration and development of its properties will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

Although the Company believes that it is in compliance with all material laws and regulations that currently apply to its activities, there may be unforeseen environmental liabilities resulting from exploration and/or mining activities and these may be costly to remedy. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of exploration and production companies, including transitory requirements in the adopting the new Ecuadorian mining law, or more stringent implementation thereof, could have a material adverse impact on the company and cause increases in expenditures and costs or require abandonment or delays in developing new mining properties.

Surface Rights and Access

Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities; however, the enforcement of such rights can be costly and time consuming.

In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the legal right to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction.

Dependence on Key Personnel

The Company's development to date has largely depended on, and in the future will continue to depend on, the efforts of key management, project management and operations personnel. Loss of any of these people could have a material adverse effect on the Company and its business. The Company has not generally obtained and does not intend to obtain key-person insurance in respect of directors or other of its employees, with the exception of some individuals for which there is limited coverage.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The Company is exposed to financial risk arising from fluctuation in foreign exchange rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Additional Information

Securities Issued During the Period
During the year ended December 31, 2011, the Company issued:

a) 360,000 common shares upon the exercise of incentive stock options at CAD$2.10 each;
b) 6,250 common shares upon the exercise of incentive stock options at CAD$2.00 each;
c) 26,250 common shares upon the exercise of incentive stock options at CAD$2.00 each;
d) incentive stock options to purchase 169,000 common shares at CAD$3.63 each;
e) incentive stock options to purchase 10,000 common shares at CAD$3.05 each;
a) incentive stock options to purchase 108,000 common shares at CAD$3.32 each;
f) incentive stock options to purchase 30,000 common shares at CAD$2.77 each;
g) incentive stock options to purchase 10,000 common shares at CAD$2.85 each;
h) incentive stock options to purchase 31,000 common shares at CAD$2.94 each;
i) incentive stock options to purchase 3,000 common shares at CAD$3.00 each; and
j) incentive stock options to purchase 1,327,000 common shares at CAD$3.07 each.

Securities Cancelled During the Period
During the year ended December 31, 2011, upon the exercise of options, the Company cancelled previously issued options to:

a) purchase 360,000 common shares at CAD$2.10 each;
b) purchase 6,250 common shares at $2.00 each;
c) purchase 26,250 common shares at $2.00 each;

During the year ended December 31, 2011, upon the optionee ceasing employment with the Company, the Company cancelled previously issued options to:

a) purchase 58,750 commons shares at CAD$2.00 each;
b) purchase 100,000 common shares at CAD$3.01 each;
c) purchase 10,000 common shares at CAD$3.05 each;
d) purchase 150,000 common shares at CAD$3.53 each;
e) purchase 42,000 common shares at CAD$3.63 each;
f) purchase 75,000 common shares at CAD$3.81 each;
g) purchase 20,000 common shares at CAD$3.82;
h) purchase 60,000 commons shares at CAD$3.95 each;
i) purchase 70,000 commons shares at CAD$4.07 each
j) purchase 30,000 common shares at CAD$4.12 each;
k) purchase 60,000 common shares at CAD$4.53 each;
l) purchase 125,000 common shares at CAD$5.00 each;
m) purchase 75,000 common shares at CAD$5.45 each;
n) purchase 20,000 common shares at CAD$6.00 each; and
o) purchase 60,000 common shares at CAD$7.44.

Securities Issued At End Of Period
On December 31, 2011, the Company had 42,461,083 common shares issued and outstanding. There are 42,461,083 common shares issued and outstanding as at the date of this report.

There are outstanding incentive stock options to purchase 4,589,300 common shares of the Company as at the date of this report, as follows:

Number	Exercise Price	Expiry Date
8,000	$ 5.00	May 17, 2012
100,000	$ 6.63	July 1, 2012
100,000	$ 3.58	July 6, 2012
75,000	$ 3.85	October 21, 2013
250,000	$ 2.00	December 18, 2013
915,000	$ 5.00	March 24, 2014
30,000	$ 2.77	June 8, 2014
65,000	$ 3.53	22 July, 2014
910,000	$ 5.45	November 6, 2014
15,000	$ 5.17	December 8, 2014
50,000	$ 5.45	January 12, 2015
20,000	$ 4.07	March 15, 2015
20,000	$ 3.95	May 5, 2015
10,300	$ 4.12	September 21, 2015
20,000	$ 4.53	December 3, 2015
127,000	$ 3.63	January 28, 2016
108,000	$ 3.32	May 17, 2016
10,000	$ 2.85	June 27, 2016
31,000	$ 2.94	25 July, 2016
3,000	$ 3.00	8 September, 2016
1,327,000	$ 3.07	1 December, 2016
150,000	$ 4.50	23 February, 2017
245,000	$ 3.00	7 February, 2017
4,589,300		

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer, of the Company has evaluated or caused to be evaluated for effectiveness the Company's disclosure control procedures and internal control over financial reporting which has been designed or caused to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.
The Company took into consideration the following characteristics common to companies of a similar size:

- The limited number of personnel in smaller companies, which constrains the Company's ability to fully segregate conflicting duties;

- The Company relies on an active Board and management with open lines of communication to maintain the effectiveness of the Company's disclosure controls and procedures; and

- The dynamic and evolving nature of smaller companies, which limits their ability to have static processes that are well-documented.

In addition, management has relied upon certain informal procedures and communication, and upon "hands-on" knowledge of senior management to maintain the effectiveness of disclosure controls and procedures; and work to continually improve and upgrade the design and evaluation of its disclosure controls and procedures and internal controls over financial reporting.

Disclosure controls and procedures
As at December 31, 2011, this evaluation confirmed the effectiveness of the design and operation of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is reported to it in a timely manner so that it can provide investors with complete and reliable information. However, there can be no assurance that the risk of a material misstatement in the annual financial statements can be reduced to less than a remote likelihood.

Internal controls and Procedures over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's Chief Executive Officer and Chief Financial Officer has concluded that internal controls over financial reporting are appropriately designed and are operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting since September 30, 2011, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Directors and Officers

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

Contact Person

Murray Oliver
Telephone: (604) 687-0888
Facsimile: (604) 687-0885
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Outlook

In the near term, the Company will continue to develop the mines at Zaruma with the objective of reaching a steady state mining and processing target of the annual equivalent of 300,000 tonnes of material per annum. In conjunction with this the Company will work towards negotiating and finalizing a definitive exploitation contract with the Ecuadorian government.

On the assumption that the Company's projects will be commercially viable under the provisions of the exploitation contract, the Company will expand its mining operations with the intention of mining enough material to fill the processing capacity of the plant at the Zaruma Gold Project. The Company will also continue to work to define geological trends and develop suitable targets for drilling, and drill those targets, on its current property holdings (including the Zaruma, Jerusalem, and Dynasty Copper-Gold Belt Projects) and to expand its holdings where warranted. Furthermore, the Company will look to finalize the mine and plant permitting process at the Jerusalem Project and reassess the economics of constructing a mining operation at the project.

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