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

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

JUNE 30, 2011

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

August 12, 2011

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 Six Months Ended June 30 2011	For the Six Months Ended June 30 2010	For the Three Months Ended June 30 2011	For the Three Months Ended June 30 2010
EXPENSES				
Amortization and accretion	$ 308,141	$ 207,067	$ 133,972	$ 111,000
Management fees	123,518	118,840	62,171	59,755
Office and general	1,384,324	876,092	619,873	432,556
Professional fees	366,006	347,328	157,142	116,052
Shareholder communication	36,804	67,184	6,936	19,899
Stock-based compensation (Note 8)	996,602	1,627,105	377,290	334,867
Transfer agent and filing fees	50,456	64,212	3,952	30,500
Travel and entertainment	152,801	142,751	72,480	76,067
	(3,418,652)	(3,450,579)	(1,433,816)	(1,180,696)
OTHER ITEMS				
Interest income	8,583	18,897	4,880	13,107
Foreign exchange gain (loss)	46,978	119,115	(43,468)	230,264
	55,561	138,012	(38,588)	243,371
Loss for the period	(3,363,091)	(3,312,567)	(1,472,404)	(937,325)
Other comprehensive Loss				
Foreign exchange gain on translation	-	(541,674)	-	(719,492)
Total comprehensive loss for the period	(3,363,091)	(3,854,241)	(1,472,404)	(1,656,817)
Basic and diluted loss per share	$ (0.08)	$ (0.10)	$ (0.03)	$ (0.04)
Weighted average number of shares outstanding	42,434,826	40,027,551	42,450,987	41,898,522

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

	June 30 2011	December 31 2010	January 1 2010
ASSETS			
Current assets			
Cash and cash equivalents	$ 8,228,162	$ 3,179,143	$ 7,610,790
Receivables	74,750	27,087	19,679
Prepaid expenses	297,059	285,215	166,318
Inventory (Note 4)	3,776,308	5,193,653	1,194,205
	12,376,279	8,685,098	8,990,992
Advances and deposits	224,954	115,409	52,857
Mine properties, plant and equipment (Note 5)	51,651,653	57,039,244	46,242,075
Exploration and evaluation properties (Note 6)	11,866,496	10,945,227	9,977,078
	$ 76,119,382	$ 76,784,978	$ 65,263,002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 3,227,575	$ 2,384,336	$ 1,024,736
Provision for closure and restoration (Note 7)	1,246,764	1,222,781	1,150,276
	4,474,339	3,607,117	2,175,012
Shareholders' equity			
Capital stock (Note 8)	88,506,793	87,256,130	73,734,451
Contributed surplus (Note 8)	9,092,529	8,512,920	6,300,745
Deficit	(25,865,774)	(22,502,684)	(16,947,206)
Accumulated other comprehensive loss	(88,505)	(88,505)	-
	71,645,043	73,177,861	63,087,990
	$ 76,119,382	$ 76,784,978	$ 65,263,002

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	Other Comprehensive Income (Loss)	Total
Balance at January 1, 2010	38,095,758	$ 73,734,451	$ (16,947,206)	$ 6,300,745	$ -	$ 63,087,990
Issue of share capital, net	3,750,000	12,880,404	-	964,078	-	13,844,482
Net loss for the period	-	-	(3,312,566)	-	-	(3,312,566)
Other comprehensive income (loss)	-	-	-	-	(541,574)	(541,674)
Stock options exercised	14,000	23,433	-	-	-	23,433
Warrants exercised	40,000	163,585	-	-	-	163,585
Stock option and warrant conversion	-	405,260	-	(405,260)	-	-
Stock-based compensation	-	-	-	1,627,105	-	1,627,105
Balance at June 30, 2010	41,899,758	$ 87,207,133	$ (20,259,772)	$ 8,486,668	$ (541,574)	$ 74,892,455
Balance at January 1, 2010	38,095,758	$ 73,734,451	$ (16,947,206)	$ 6,300,745	$ -	$ 63,087,990
Issue of share capital, net	3,750,000	12,880,404	-	964,078	-	13,844,482
Net loss for the period	-	-	(5,555,478)	-	-	(5,555,478)
Other comprehensive income (loss)	-	-	-	-	(88,505)	(88,505)
Stock options exercised	182,825	259,533	-	-	-	259,533
Warrants exercised	40,000	163,585	-	-	-	163,585
Stock option and warrant conversion	-	218,157	-	(218,157)	-	-
Stock-based compensation	-	-	-	1,466,254	-	1,466,254
Balance at December 31, 2010	42,068,583	$ 87,256,130	$ (22,502,684)	$ 8,512,920	$ (88,505)	$ 73,177,861
Issue of share capital, net	-	-	-	-	-	-
Net loss for the period	-	-	(3,363,091)	-	-	(3,363,091)
Other comprehensive income (loss)	-	-	-	-	-	-
Stock options exercised	392,500	811,994	-	-	-	811,994
Warrants exercised	-	-	-	-	-	-
Stock option and warrant conversion	-	438,669	-	(438,669)	-	-
Stock-based compensation	-	-	-	1,018,278	-	1,018,278
Balance at June 30, 2011	42,461,083	$ 88,506,793	$ (25,865,774)	$ 9,092,529	$ (88,505)	$ 71,645,043

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

	For the Six Months Ended June 30 2011	For the Six Months Ended June 30 2010	For the Three Months Ended June 30 2011	For the Three Months Ended June 30 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	$ (3,363,091)	$ (3,854,241)	$ (1,472,404)	$ (1,656,817)
Items not affecting cash:				
Amortization and accretion	308,141	207,067	133,972	111,000
Stock-based compensation	996,602	1,627,105	377,290	334,867
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(47,663)	(10,440)	(18,836)	7,659
(Increase) decrease in prepaid expenses	(11,844)	30,620	13,506	69,770
(Increase) decrease in inventory	1,456,899	(3,342,397)	2,818,424	(2,107,993)
Increase (decrease) in accounts payable	(579,050)	(48,837)	(241,998)	(170,767)
Net cash used in operating activities	(1,240,006)	(5,391,123)	1,609,954	(3,412,281)
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures on exploration and evaluation properties	(921,269)	(1,308,962)	(87,339)	(179,545)
Exploration advances and deposits	(109,545)	(142,276)	8,302	(57,940)
Pre-commercial production revenue credited to mine properties, plant and equipment	20,770,154	-	13,780,642	-
Expenditures on mine properties, plant and equipment	(14,283,985)	(6,361,966)	(9,397,481)	(4,182,319)
Net cash recovered (used) in investing activities	5,455,355	(7,813,204)	4,304,124	(4,419,804)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of capital stock and units	833,670	15,076,713	105,324	14,904,283
Issuance costs	-	(1,057,814)	-	(1,045,213)
Net cash provided (used) by financing activities	833,670	14,018,899	105,324	13,859,070
Change in cash and cash equivalents for the period	5,049,019	814,572	6,019,402	6,026,985
Cash and cash equivalents, beginning of period	3,179,143	7,610,790	2,208,760	2,398,377
Cash and cash equivalents, end of period	$ 8,228,162	$ 8,425,362	$ 8,228,162	$ 8,425,362
Cash paid during the period for interest	$ -	$ -	$ -	$ -
Cash paid during the period for income taxes	$ -	$ -	$ -	$ -

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. On September 24, 2003, the Company completed a business combination and changed its name from "Vendin One Capital Corp." to "Dynasty Metals & Mining Inc." The Company is in the business of acquiring, exploring and developing mineral concessions. All such concessions are currently situated in Ecuador.

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 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 requires each company 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. There is no assurance that the Company will be able to agree on an exploitation contract and royalty rate that will not adversely affect the Company's business. In the event that the exploitation contract reached with the government impacts 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 mineral properties, property, plant and equipment and certain other capital assets and the Company's ability to exploit these properties.

The Company's continuing operations are dependent upon its ability to either secure additional equity capital or generate cash flow from operations in the future, which is not assured. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary, should the Company be unable to secure additional equity capital or generate cash from operations in the future.

The address of the Company's corporate office and principal place of business is #270 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8

2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set in the Handbook of the Canadian Institute of Chartered Accountant ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed interim consolidated financial statements.

These are the Company's first IFRS interim consolidated financial statements for the period covered by the Company's first IFRS annual consolidated financial statements for the year ended December 31, 2011. Previously the Company prepared its consolidated annual and interim financial statements in accordance with Canadian GAAP. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

These interim unaudited consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies in Note 3.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as at June 13, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS, that are

2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS (cont'd)

given effect in the Company's annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. The disclosure in Note 13 provides IFRS information for the year ended December 31, 2010 that is material to the understanding of these interim consolidated financial statements.

Change in functional and reporting currency

Effective January 1, 2011, the Company changed from a Canadian dollar presentation currency to a US dollar presentation currency. The functional currency of the Company also changed from Canadian dollars to US dollars effective January 1, 2011. The functional currency of all subsidiaries of the Company has not changed and is US dollars.

As a result of changing the presentation currency, all the comparative amounts were restated to the US dollar. Comparative assets and liabilities were translated using the closing rate at the balance sheet date and comparative equity and expenses were translated at the exchange rates at the dates of the transactions. All resulting exchange differences were recognized in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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.

Significant accounts that require estimates relate to the possible impairment of property, plant and equipment, mine development costs and mineral properties, the useful life of assets for amortization, valuation allowances for future income taxes, valuation of stock-based compensation, the estimated economically recoverable resources for depreciating mineral properties and valuation of asset retirement obligations.

Foreign currency translation

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

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

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments redeemable with an initial term to maturity of less than 90 days.

Revenue

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

Inventory

Inventory consists of materials and supplies and finished goods and is recorded at the lower of weighted average cost or net realizable value.

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 period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues.

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,

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

Mine properties, plant and equipment (cont'd)

except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable resource development.

Amortization is provided using the straight-line method over the following terms:

Office and exploration equipment	5 years
Vehicles	3 years
Mining equipment	5 years
Drill rigs	5 years
Plant	10 years
Buildings	20 years

Provision for closure and restoration

An obligation to incur closure and restoration costs arises with the retirement of tangible long-lived assets that the Company is required to settle. Such costs arising from the decommissioning of plant, mines and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss. Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

Stock-based compensation

The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in equity.

The fair value of share purchase options granted is determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share purchase options, the fair value of the Company's shares and the risk-free interest rate. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The estimated fair value of awards of share purchase options is charged to expense over the vesting period, with offsetting amounts to equity settled share-based payments. If the share purchase options are granted for past services, they are expensed immediately. If the share purchase options are forfeited prior to vesting, no amounts are charged to expense. If share purchase options are exercised then the fair value of the options is re-classed from equity settled share-based payments to share capital.

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

Stock-based compensation (cont'd)

At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

Impairment on non-financial assets

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

Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future 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 future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

Financial assets

Financial assets, other than derivatives, are designated as available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as available-for-sale are measured on initial recognition plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except

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

Financial assets (cont'd)

for financial assets that are considered to be impaired in which case the loss is recognized in net income or loss. The Company has not classified any assets as available for sale for any period presented.

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

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

Financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, debt component of the convertible notes and revolving credit facility are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in net income or loss.

Segment reporting

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

Comprehensive income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

Financing charges

Financing charges that reflect the cost to obtain new debt financing are expensed as incurred. Financing charges that reflect the cost to obtain new equity financing are deducted from shareholders equity.

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

New accounting standards and interpretations

Financial Instruments IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial instruments.

4. INVENTORY

	June 30 2011	December 31 2010
Materials and supplies	$ 2,201,436	$ 1,962,410
Finished goods	1,574,872	3,231,243
	$ 3,776,308	$ 5,193,653

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

	June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Mines under construction	$ 21,636,293	$ -	$ 21,636,293
Plant	21,494,044	1,957,659	19,536,385
Land & Buildings	3,292,747	109,287	3,183,460
Mining equipment	9,412,051	2,847,483	6,564,568
Other equipment	1,872,318	1,141,371	730,947
	$ 57,707,453	$ 6,055,800	$ 51,651,653

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

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Mines under construction	$ 26,694,463	$ -	$ 26,694,463
Plant	20,726,947	964,254	19,762,693
Land & Buildings	3,292,747	93,644	3,199,103
Mining equipment	8,349,678	2,138,382	6,211,296
Other equipment	2,171,788	1,000,099	1,171,689
	$ 61,235,623	$ 4,196,379	$ 57,039,244

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. Revenue from the sale of metals prior to the commencement of commercial production has been credited to mines under construction.

Plant

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 June 30, 2011 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.

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 as well as at its mineral properties.

Mining equipment

Mining equipment includes various machinery and equipment being used in the development of portals and to mine material from the Zaruma Gold Project.

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.

6. EXPLORATION AND EVALUATION PROPERTIES (cont'd)

	Dynasty Project	Jerusalem Project	Other Projects	Total
Balance, January 1, 2010	$ 8,254,779	$ 1,417,928	$ 304,371	$ 9,977,078
Costs				
Camp supplies and field costs	14,449	5,467	-	19,916
Geological consulting	108,313	22,634	-	130,947
Laboratory fees	4,796	1,196	-	5,992
Mineral concession rights	793,310	5,400	39,613	838,323
Project administration	66,692	24,378	-	91,070
Travel and related costs	48,087	7,629	1,132	56,848
Write-off of abandoned properties	-	-	(174,947)	(174,947)
Additions for the period	1,035,647	66,704	(134,202)	968,149
Balance, December 31, 2010	$ 9,290,426	$ 1,484,632	$ 170,169	$ 10,945,227
Costs				
Camp supplies and field costs	10,064	-	-	10,064
Geological consulting	38,515	10,404	-	48,919
Laboratory fees	-	-	-	-
Mineral concession rights	758,404	6,040	-	764,444
Project administration	55,640	12,326	-	67,966
Travel and related costs	28,805	1,070	-	29,875
Additions for the period	891,428	29,840	-	921,268
Balance, June 30, 2011	$ 10,181,854	$ 1,514,472	$ 170,169	$ 11,866,496

7. ASSET RETIREMENT OBLIGATION

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 June 30, 2011 to be $1,246,764 (December 31, 2010 - $1,222,781). The present value of the future reclamation obligation assumes an inflation rate of 2.5% and a discount rate of 8.0%, an undiscounted amount to settle the obligation of $1,324,000 and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

	June 30 2011	December 31 2010
Balance, beginning of period	$ 1,222,781	$ 1,150,276
Accretion expense	23,983	72,505
Balance, end of period	$ 1,246,764	$ 1,222,781

8. SHARE CAPITAL

At June 30, 2011, the Company had unlimited authorized common shares and 42,461,083 shares outstanding (December 31, 2010 – 42,068,583). All per share amounts below are in Canadian dollars which, at June 30, 2011, is equivalent to 1.0368 US dollars.

Share purchase warrants

As at June 30, 2011, no warrants (December 31, 2010 – 2,100,000) were outstanding. During the three months ending June 30, 2010, 2,100,000 warrants expired unexercised as they were out-of-the money.

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 based on 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.

Stock options

	Stock options		
	Number		Weighted Average Exercise Price (CAD$)
Balance, December 31, 2009	4,124,325	$	4.34
Granted	580,300		4.14
Exercised	(182,825)		1.46
Expired	(271,200)		4.74
Balance, December 31, 2010	4,250,600	$	4.41
Granted	327,000		3.42
Exercised	(392,500)		2.09
Expired	(395,000)		3.77
Balance, June 30, 2011	3,790,100	$	4.63

8. SHARE CAPITAL

Stock options (cont'd)

The following stock options were outstanding as at June 30, 2011:

	Number of Shares	Exercise Price CAD$	Expiry Date
Options	40,000	5.28	January 3, 2012
	150,000	4.50	February 23, 2012
	196,050	5.00	March 29, 2012
	8,000	5.00	May 17, 2012
	20,000	6.00	June 14, 2012
	100,000	6.63	July 1, 2012
	100,000	3.58	July 6, 2012
	60,000	7.44	August 20, 2012
	75,000	3.85	October 21, 2013
	308,750	2.00	December 17, 2013
	1,000,000	5.00	March 24, 2014
	215,000	3.53	July 22, 2014
	20,000	3.82	September 25, 2014
	985,000	5.45	November 6, 2014
	15,000	5.17	December 8, 2014
	50,000	5.45	January 12, 2015
	30,000	4.07	March 14, 2015
	30,000	3.95	May 5, 2015
	40,300	4.12	September 21, 2015
	20,000	4.53	December 3, 2015
	169,000	3.63	January 28, 2016
	10,000	3.05	March 16, 2016
	108,000	3.32	May 17, 2016
	30,000	2.77	June 8, 2014
	10,000	2.85	June 27, 2016
	3,790,100		

The weighted average price for exercisable options was CAD$4.63.

Subsequent to June 30, 2011, the Company granted options to purchase 31,000 common shares at $2.94 per share.

Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. During the six months ended June 30, 2011, the Company granted 327,000 (2010 – 140,000) options with a fair value of $572,838 (2010 - $407,590), which is being recognized over the vesting periods of the options. Total stock-based compensation charges for the six months ended June 30, 2011 was $996,602 (2010 - $1,368,414).

9. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the six months ended June 30, 2011 and 2010:

a) paid or accrued professional fees of $52,399 (2010 - $52,741) to a law firm in Ecuador with which a director of the Company is affiliated;

b) paid or accrued professional fees of $104,989 (2010 - $54,775) to a director of the Company; and

c) paid management fees of $150,000 (2010 - $150,000) to a company controlled by the President and Chief Executive Officer of the Company of which $112,500 (2010 - $112,500) were capitalized and included in either mineral property, mines under construction or plant construction costs.

Included in accounts payable at June 30, 2011 is $11,187 (December 31, 2010 - $nil) due to a law firm with which a current director is affiliated and $12,920 (December 31, 2010 - $35,083) due to directors and companies controlled by directors of the Company.

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

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) During the six months ended June 30, 2011, the Company incurred mine properties, plant and equipment expenditures of $2,192,517, acquired land at a cost of $80,000, acquired inventory at a cost of $526,983 and incurred plant construction expenditures of $416,798 through accounts payable. In addition, the Company capitalized $560,243 and $919,612 of amortization on mining equipment and the plant.

b) During the six months ended June 30, 2010, the Company incurred mine properties, plant and equipment expenditures of $509,232, acquired land at a cost of $80,000 and incurred plant construction expenditures of $116,083 through accounts payable. In addition, the Company capitalized $619,933 on mining equipment.

c) Cash and cash equivalents consisted of cash of $8,228,162 (2010 - $3,179,143) and short-term investments of $nil (2010 - $nil).

11. CAPITAL DISCLOSURE

The Company's capital currently consists of common shares, options and warrants. As the Company is in the development stage its principal source of funds is from the issuance of common shares 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 six months ended June 30, 2011.

12. 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 and cash equivalents are stated at fair value and classified within Level 1. The fair values of accounts receivable, 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 cash equivalents and receivables. The Company deposits cash and cash equivalents 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.

At June 30, 2011, a significant portion of the Company's cash and cash equivalents were held in Canadian dollars and were therefore subject to fluctuation against the US dollar. Based on the balances as at June 30, 2011, if the Canadian dollar had weakened (strengthened) against the US dollar, with all other variables held constant, by 1%, net loss would have increased (decreased) by approximately $14,490. There would be no effect in other comprehensive loss. Additionally, a portion of the Company's 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 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

12. FINANCIAL INSTRUMENTS (cont'd)

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.

13. FIRST TIME ADOPTION OF IFRS

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 balance sheet 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.

13. FIRST TIME ADOPTION OF IFRS (cont'd)

	December 31 2010	June 30 2010	January 1 2010
Total assets under Canadian GAAP (previously reported in CAD$)	$ 82,067,659	$ 83,041,434	$ 70,903,839
Total assets under Canadian GAAP (restated in US$)	$ 76,314,855	$ 76,417,640	$ 64,792,879
Adjustment – Asset retirement obligation (i)	470,123	470,123	470,123
Total assets under IFRS	76,784,978	76,887,763	65,263,002

	December 31 2010	June 30 2010	January 1 2010
Total liabilities under Canadian GAAP (previously reported in CAD$)	$ 3,083,462	$ 1,547,838	$ 1,735,911
Total liabilities under Canadian GAAP (restated in US$)	$ 3,098,668	$ 1,495,502	$ 1,683,653
Adjustment – Asset retirement obligation (i)	508,449	499,904	491,359
Total liabilities under IFRS	3,607,117	1,995,406	2,175,012
Total equity under Canadian GAAP (previously reported in CAD$)	$ 78,984,197	$ 81,493,596	$ 69,167,928
Total equity under Canadian GAAP (restated in US$)	$ 73,216,187	$ 74,922,137	$ 63,109,226
Adjustment – Asset retirement obligation (i)	(38,326)	(29,781)	(21,236)
Total equity under IFRS	73,177,861	74,892,356	63,087,990

	For the Year Ended December 31, 2010	For the Six Months Ended June 30, 2010	For the Three Months Ended June 30, 2010
Comprehensive loss under Canadian GAAP (previously reported CAD$)	$ (6,643,783)	$ (3,423,816)	$ (872,939)
Comprehensive loss under Canadian GAAP (restated in US$)	$ (6,186,206)	$ (3,789,069)	$ (1,624,938)
Adjustment – Asset retirement obligation (i)	$ (17,090)	$ (8,545)	$ (4,272)
Adjustment – Stock-based compensation charges (ii)	559,313	(56,627)	(27,607)
Total net loss under IFRS	(5,643,983)	(3,854,241)	(1,656,817)

13. FIRST TIME ADOPTION OF IFRS (cont'd)

(i) Asset retirement obligation

Under Canadian GAAP, ARO is discounted based on the credit adjusted risk free rate. Under IFRS, ARO is discounted based on current risk free discount rate. Accordingly, the Company recorded an adjustment to increase the ARO asset and liability by $470,123 as at January 1, 2010, June 30 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 ARO recorded an adjustment to increase ARO and retained loss by $17,090, $8,545 and $4,272 for the year ending December 31, 2010, the six months ended June 30, 2010 and the three months ended June 30, 2010, respectively.

(ii) Stock-based compensation charges

Under Canadian GAAP, share-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 Statement of Income (Loss) and Comprehensive Income (Loss) and in Contributed Surplus within the Statement of Changes in Shareholders' Equity and Deficit.

Upon transition on January 1, 2010, a reclassification adjustment was recorded to decrease deficit and to increase contributed surplus by $228,386. For comparative purpose, for the six and three months ended June 30, 2010, the Company also recorded an adjustment to increase stock-based compensation charges by $56,625 and $27,607, respectively, and for the year ended December 31, 2010, an adjustment was recorded to decrease stock-based compensation charges expense by $559,313.

(iii) 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; $6,660,469 and $6,477, 947 from exploration and evaluation properties to mine properties, plant and equipment as at December 31, 2010; June 30, 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 $19,777,155; $15,316,842 and $11,955,755 from mine development costs to mine properties, plant and equipment as at December 31, 2010; June 30, 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".