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

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 and 2006

AUDITORS' REPORT

To the Shareholders of
Dynasty Metals & Mining Inc.

We have audited the consolidated balance sheets of Dynasty Metals & Mining Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

March 26, 2008

DYNASTY METALS & MINING INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	$ 16,704,082	$ 13,737,903
Receivables	114,911	128,919
Prepaid expenses	70,807	17,734
	16,889,800	13,884,556
Exploration advances and deposits	159,402	80,419
Property, plant and equipment (Note 3)	9,493,094	3,293,877
Mineral properties (Note 4)	15,032,981	8,185,123
	$ 41,575,277	$ 25,443,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 2,160,052	$ 856,859
Current portion of long-term debt	46,261	54,367
	2,206,313	911,226
Long-term debt (Note 5)	-	54,367
Asset retirement obligation (Note 6)	146,901	-
	2, 353,214	965,593
Shareholders' equity		
Capital stock (Note 7)	44,741,142	27,123,263
Contributed surplus (Note 7)	2,296,302	1,860,010
Deficit	(7,815,381)	(4,504,891)
	39,222,063	24,478,382
	$ 41,575,277	$ 25,443,975

Nature and continuance of operations (Note 1)
Subsequent events (Note 13)

On behalf of the Board:

"Robert Washer" Director "Yale Simpson" Director

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
YEARS ENDED DECEMBER 31,

	2007	2006
EXPENSES		
Amortization	$ 216,751	$ 106,511
Management fees	386,166	317,645
Office and general	699,468	350,330
Professional fees	488,412	292,637
Shareholder communication	419,792	207,775
Stock-based compensation (Note 7)	924,175	1,031,491
Transfer agent and filing fees	210,430	21,795
Travel and entertainment	322,262	145,155
Loss before other items	(3,667,456)	(2,473,339)
OTHER ITEMS		
Interest income	552,036	253,654
Interest expense	(7,028)	(4,712)
Gain on disposal of assets	7,740	5,881
Foreign exchange gain (loss)	(195,782)	11,321
	356,966	266,144
Loss and comprehensive loss for the year	(3,310,490)	(2,207,195)
Deficit, beginning of year	(4,504,891)	(2,297,696)
Deficit, end of year	$ (7,815,381)	$ (4,504,891)
Basic and diluted loss per share	$ (0.12)	$ (0.10)
Weighted average number of shares outstanding	27,464,261	21,650,512

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (3,310,490)	$ (2,207,195)
Items not including cash:		
Amortization	216,751	106,511
Stock-based compensation	924,175	1,031,491
Gain on disposal of assets	(7,740)	(5,881)
Unrealized foreign exchange	(16,654)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	14,008	(108,705)
(Increase) decrease in prepaid expenses	(53,073)	35,870
Increase (decrease) in accounts payable and accrued liabilities	(5,214)	258,712
Net cash used in operating activities	(2,238,237)	(889,197)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on mineral properties	(6,949,853)	(3,372,208)
Exploration advances and deposits	(78,983)	(63,879)
Purchase of equipment	(4,816,887)	(3,098,332)
Proceeds on disposal of assets	23,500	11,390
Net cash used in investing activities	(11,822,223)	(6,523,029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	17,904,855	18,804,912
Share issue costs	(832,397)	(1,315,182)
Long-term debt repayment	(45,819)	(53,806)
Net cash provided by financing activities	17,026,639	17,435,924
Increase in cash and cash equivalents for the year	2,966,179	10,023,698
Cash and cash equivalents, beginning of year	13,737,903	3,714,205
Cash and cash equivalents, end of year	$ 16,704,082	$ 13,737,903
Cash paid during the year for interest	$ 7,028	$ 4,712
Cash paid during the year for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the laws of the Yukon Territory on June 28, 2000. The Company is in the business of acquiring, exploring and developing mineral concessions situated in Ecuador. To date, the Company has not generated revenues from operations and is considered to be an exploration and early development stage company.

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, except from an estimate of asset retirement obligations, that might be necessary, should the Company be unable to secure additional equity capital or generate cash from operations in the future.

2. 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.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles 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 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.

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.

Property and equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided using the straight-line method over the following terms:

Office and field exploration equipment	5 years
Computers	3 years
Vehicles	3 years
Drill rigs	5 years
Buildings	20 years

Mineral properties

All costs related to the acquisition, exploration, evaluation and development of mineral properties are capitalized by property, until such time a mineral property is brought into commercial production, at which time they are depreciated using the units of production method based on the estimated economically recoverable resources to which they relate. When a property is abandoned, all related costs are written off to operations. If, after

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Mineral properties (cont'd)

management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The amount added to the long-lived asset will be amortized in the same manner as the related asset. The liability will be increased in each accounting period by the amount of the implied interest ("accretion") inherent in the use of discounted present value methodology, and the increase will be charged against earnings.

Stock-based compensation

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock. Compensation costs are typically recognized over the vesting period. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion of stock-based compensation previously recorded in contributed surplus. The effect of forfeitures are accounted for as they occur.

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transactions. Translation gains and losses are reflected in the results of operations.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 period. 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 instruments

Recognition and measurement

On January 1, 2007, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Disclosure and Presentation", 3865 "Hedges", 1530 "Comprehensive Income", and 3251 "Equity", for fiscal years beginning on or after January 1, 2007. These standards have been adopted on a prospective basis with no restatement to prior period financial statements.

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Under this standard, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The Company has implemented the following classifications for its financial instruments:

a) Cash and cash equivalents have been classified as held-for-trading.

b) Accounts receivable have been classified as loans and receivables and measured at amortized cost.

c) Accounts payable and accrued liabilities have been classified as other financial liabilities and are measured at amortized cost.

d) Debt has been classified as other financial liabilities and has been measured at amortized cost.

Comprehensive Income

Section 1530 establishes standards for reporting and displaying 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Comparative amounts

Comparative amounts have been reclassified, where necessary, to conform to the presentation adopted in the current year.

New accounting standards

The CICA has issued six new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the interim period ended March 31, 2008 and is currently considering the impact this will have on the Company's financial statements.

Section 1400 – Assessing Going Concern

This Section was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the entity's key management personnel:

(i) qualitative information about its objectives, policies and processes for managing capital,
(ii) summary quantitative data about what it manages as capital.
(iii) whether during the period it complied with any externally imposed capital requirements to which it is subject.
(iv) when the company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3064 – Goodwill and Intangible Assets

This new standard replaces the current standard for goodwill and intangible assets, Section 3062, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

Section 3862 – Financial Instruments – Disclosures

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting standards (cont'd)

Section 3862 – Financial Instruments – Disclosures (cont'd)

The Section requires specific disclosures to be made, including the criteria for:
(i) designating financial assets and liabilities as held for trading;
(ii) designating financial assets as available-for-sale; and
(iii) determining when impairment is recorded against the related financial asset or when an allowance account is used.

Section 3863 – Financial Instruments - Presentation

This Section was issued to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 156,115	$ 68,009	$ 88,106
Exploration equipment	286,661	57,978	228,683
Drill rigs	430,962	122,652	308,310
Vehicles	174,708	42,611	132,097
Land	2,501,710	-	2,501,710
Buildings	589,217	205	589,012
Plant construction	5,061,380	-	5,061,380
Mining equipment	583,796	-	583,796
	$ 9,784,549	$ 291,455	$ 9,493,094

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 97,496	$ 31,388	$ 66,108
Exploration equipment	227,479	25,406	202,073
Drill rigs	430,962	36,460	394,502
Vehicles	93,415	34,047	59,368
Land	767,299	-	767,299
Plant construction	1,514,111	-	1,514,111
Mining equipment	290,416	-	290,416
	$ 3,421,178	$ 127,301	$ 3,293,877

Plant construction

The Company has commenced 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 and equipment. Upon completion, such costs will be amortized over the plant's estimated useful life.

Mining equipment

Mining equipment includes various machinery and equipment that will be used in the future to mine material from its Zaruma Gold Project. Upon commencement of operations, such costs will be amortized over their estimated useful lives.

Land

The Company purchased certain land to secure surface access to parts of the Dynasty and Zaruma projects.

4. MINERAL PROPERTIES

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 below, are properly registered and in good standing.

4. MINERAL PROPERTIES (cont'd)

The following table summarizes mineral property expenses, by property.

	Dynasty Project	Zaruma Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2005	$ 2,635,121	$ 848,511	$ 634,827	$ 57,988	$ 4,176,447
Costs					
Camp supplies and field costs	99,958	153,719	10,380	6,715	270,772
Drilling and supplies	491,660	-	10,639	-	502,299
Geological consulting	581,589	386,983	112,935	6,709	1,088,217
Laboratory fees	71,019	8,091	32	3,740	82,883
Mineral concession rights	145,069	134,123	787	28,436	308,415
Project administration	221,862	370,138	80,607	41,499	714,106
Technical reports and services	30,650	515,916	198,094	-	744,660
Travel and related costs	133,523	134,108	18,037	11,658	297,324
	1,775,330	1,703,078	431,511	98,757	4,008,676
Balance, December 31, 2006	4,410,451	2,551,589	1,066,338	156,745	8,185,123
Costs					
Camp supplies and field costs	152,338	174,624	1,075	20,669	348,706
Drilling and supplies	602,811	-	-	78,574	681,385
Geological consulting	1,031,881	171,659	105,259	11,955	1,320,754
Laboratory fees	78,268	20,827	3,460	1,509	104,064
Mineral concession rights	157,154	1,364,739	826	19,675	1,542,394
Project administration	293,981	424,250	76,582	92,457	887,270
Technical reports and services	21,969	7,092	-	-	29,061
Travel and related costs	266,852	198,735	11,719	3,923	481,229
Mine development costs	-	1,452,995	-	-	1,452,995
	2,605,254	3,814,921	198,921	228,762	6,847,858
Balance, December 31, 2007	$ 7,015,705	$ 6,366,510	$ 1,265,259	$ 385,507	$ 15,032,981

Zaruma Gold Project

The Zaruma Gold Project comprises 46 concessions, located in the El Oro Province of southwestern Ecuador, in the vicinity of the towns of Zaruma and Portovelo. As of the date of this report, 43 of the concessions are 100% owned, one is 50% owned and one is 25% owned and subject to a concession sharing arrangement. The Company has title to the remaining concession and has paid the majority of applicable option payments on this concession.

Two of the concessions are subject to a 1% NSR Royalty payable to a company controlled by a director, three concessions are subject to a 2% NSR Royalty and 39 are subject to a 1.5% NSR Royalty payable to IAMGOLD Ecuador S.A. ("IAMGOLD").

In July 2006, the Company entered into an agreement with IAMGOLD whereby it secured the right to buy back a 3% NSR Royalty from IAMGOLD. In December 2007 the Company purchased one-half of the 3% NSR Royalty for US$1 million. The Company has an option to purchase the remaining 1½% NSR Royalty for US$5 million by December 2008.

The Company is aware that a locally-based, third party has applied for, and received, certain limited mining concessions from local authorities that could affect the Company's future ability to operate a portion of the Zaruma property. The Company believes, based upon legal advice received, that these claims have no standing under

4. MINERAL PROPERTIES (cont'd)

Zaruma Gold Project (cont'd)

Ecuador's mining laws. The Company has not received notice of any change in the status of its title to any of its concessions and has advised the relevant provincial and federal government agencies that it will strongly object to any encroachment upon its concession rights.

The Company is also aware of actions taken by another party to gain ownership of an additional concession within the Zaruma Gold Project. The Company believes that these actions are unlawful and has taken steps to protect its interest.

Jerusalem Project

The Jerusalem Project consists of one, 100% owned concession.

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

Dynasty Project

The Dynasty Project, also know as the Dynasty Copper-Gold Belt consists of 52, 100% owned concessions.

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

The Company has received conditional regulatory approval, to transfer the Copper Duke concessions (consisting of 11 core concessions) to SBI Skin Biology Incorporated ("SBI"), a publicly-traded company listed on the TSX Venture Exchange's NEX Board, in exchange for 51 million shares of SBI, and a 2% NSR Royalty on all minerals extracted from Copper Duke. SBI was required to raise $6 million at not less than $0.60 per share. Upon completion, the Company would have owned approximately 60% of the issued shares of SBI and would have had certain other rights. The agreement with SBI has expired, however the Company and SBI are currently negotiating additional terms and an extension to the agreement.

5. LONG-TERM DEBT

During fiscal 2005, the Company acquired land to secure access to certain of its mineral properties and the vendor agreed to finance the purchase amount of $232,200. As at December 31, 2007, the terms of the outstanding loan were as follows:

		2007		2006
Loan payable $46,621 (US$46,667), unsecured, repayable in installments of US$46,667 principal payable annually, bearing interest at 6% per annum payable semi-annually	$	46,621	$	108,734
Current portion of long-term debt		(46,621)		(54,367)
	$	-	$	54,367

6. ASSET RETIREMENT OBLIGATION

The Company's environmental permit requires that it reclaim any land it disturbs during the mine and plant construction and operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to December 31, 2007 to be $146,901. The present value of the future reclamation obligation assumes an inflation rate of 4% and a discount rate of 8.0% and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Capital Stock		
	Number of Shares	Amount	Contributed Surplus
Authorized Unlimited common shares without par value			
As at December 31, 2005	22,145,388	$ 9,765,047	$ 649,543
Exercise of warrants	9,450	49,140	-
Exercise of options	405,164	255,772	-
Private placements (c)	3,700,000	18,500,000	-
Purchase of mineral property (d)	30,000	105,000	-
Share issue and transaction costs	-	(1,684,302)	311,582
Stock-based compensation	-	-	1,031,491
Warrant and option conversion	-	132,606	(132,606)
As at December 31, 2006	26,290,002	27,123,263	1,860,010
Exercise of warrants	210,570	1,094,964	-
Exercise of options	557,632	909,891	-
Private placements (a), (b)	2,200,000	15,900,000	-
Finders fee (a)	20,000	120,000	-
Share issue and transaction costs (b)	-	(1,064,859)	170,000
Stock-based compensation	-	-	924,175
Warrant and option conversion		657,883	(657,883)
As at December 31, 2007	29,278,204	$ 44,741,142	$ 2,296,302

Share issuances

During the year ended December 31, 2007, the Company:

(a) Issued 1,000,000 common shares at $6.00 per share on June 15, 2007 for gross proceeds of $6,000,000 by way of a private placement. In connection with the transaction the Company issued 20,000 common shares with a value of $6.00 per share as a finders fee.

(b) Issued 1,200,000 common shares at $8.25 per share on October 11, 2007 for gross proceeds of $9,900,000 by way of a private placement. In connection with the transaction, the Company paid a cash commission equal to

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

Share issuances (cont'd)

6% of gross proceeds and granted agent warrants to purchase 72,000 common shares at $8.50 per share for a period of one year. The warrants were valued at $170,000 using the Black-Scholes option pricing model with a weighted average expected volatility of 68.3%, risk free interest rate of 4.4%, life of one year and dividend yield of 0%.

During the year ended December 31, 2006 the Company:

(c) Issued 2,000,000 common shares at $5.00 per share on May 17, 2006 for gross proceeds of $10,000,000 and issued 1,700,000 common shares at $5.00 per share on December 21, 2006 for gross proceeds of $8,500,000 by way of two brokered private placements.

In connection with these transactions the Company granted agent warrants to purchase 222,000 common shares exercisable at $5.20 per share for a period of one year, valued at $311,582 using the Black-Scholes option pricing model with a weighted average expected volatility of 71%, risk free interest rate of 4.2%, life of one year and dividend yield of 0%.

(d) Issued 30,000 shares valued at $105,000 to acquire a 100% interest in certain mineral concessions for its Zaruma Gold Project.

Stock options and warrants

The Company has an incentive stock option plan, pursuant to which its Board of Directors grants stock options, from time to time, to directors, officers, employees and certain consultants. The exercise price of each option is 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 2007 Annual General Meeting to grant a maximum of 5,333,297 options.

	Warrants		Stock options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, December 31, 2005	-	$ -	3,098,000	$ 0.78
Granted	222,000	5.20	900,000	2.48
Exercised	(9,450)	5.20	(405,164)	0.63
Expired	-	-	(46,250)	0.75
Balance, December 31, 2006	212,550	5.20	3,546,586	1.23
Granted	72,000	8.50	770,000	5.45
Exercised	(210,570)	5.20	(557,632)	1.63
Cancelled	-	-	(200,000)	3.48
Expired	(1,980)	5.20	-	-
Balance, December 31, 2007	72,000	$ 8.50	3,558,954	$ 1.95

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

Stock options and warrants (cont'd)

The weighted average fair value per stock option granted during the current year was $2.47 (2006 - $1.00).

The following stock options and warrants were outstanding as at December 31, 2007:

	Options outstanding			Options exercisable	
Exercise price range $	**Number of stock options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number of stock options exercisable**	**Weighted average exercise price $**
$0.45 - $0.75	1,128,000	0.88	0.53	1,128,000	0.53
$1.05	1,266,904	2.75	1.05	919,154	1.05
$2.10 - $3.48	420,000	3.03	2.26	420,000	2.26
$4.50 - $5.28	484,050	4.18	4.87	204,550	4.78
$6.00 - $7.44	260,000	4.49	6.57	60,000	6.62
	3,558,954	2.51	1.95	2,731,704	1.42

There were 72,000 warrants exercisable at December 31, 2007, with an exercise price of $8.50, expiring on October 11, 2008.

Subsequent to December 31, 2007, the Company granted additional options to purchase 100,000 common shares at $7.50 per share and 600,000 common shares were issued upon exercise of stock options for proceeds of $270,000.

Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. During the current year, the Company granted 770,000 (2006 - 900,000) options to directors, employees and consultants with a fair value of $1,903,900 (2006 - $898,495), which is being recognized over the vesting periods of the options. Total stock-based compensation recognized in the Statement of Operations, Comprehensive Loss and Deficit for the year ended December 31, 2007 was $924,175 (2006 - $1,031,491). This amount represents the value of vested options.

The following weighted average assumptions were used for the valuation of stock options:

	2007	2006
Risk-free interest rate	4.17%	3.87%
Expected life	2.7 years	3.1 years
Annualized volatility	73%	61%
Dividend rate	0.00%	0.00%

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the years ended December 31, 2007 and 2006:

a) paid or accrued legal fees of $372,366 (2006 - $341,225), of which $73,311 (2006 - $123,450) is included in share issue costs, to a law firm in Canada with which a former director of the Company was affiliated;

b) paid or accrued fees of $27,208 (2006 - $146,164) for engineering services to a director of the Company, which were capitalized and included in mineral property costs and classified as technical reports and services;

c) paid management fees of $387,603 (2006 - $392,329) to companies controlled by a director and a former officer of the Company of which $144,452 (2006 - $122,684) were capitalized and included in mineral property costs and classified as project administration;

d) paid or accrued professional fees of $52,584 (2006 - $6,933) to a law firm in Ecuador with which a current director of the Company is affiliated; and

e) exercised an option to purchase land, sundry field equipment and machinery for $1,373,942 (2006 - $67,570) from a company controlled by a director of the Company and with respect to the lease of this land, sundry field equipment and machinery accrued rental expense of $29,739 (2006 - $nil), which was capitalized as plant construction.

Included in accounts payable at December 31, 2007 is $51,060 (2006 - $79,989) due to a law firm with which a former director is affiliated and $1,553,680 (2006 - $229,767) due to a director and companies controlled by a director of the Company.

Included in accounts receivable at December 31, 2007 is $24,867 (2006 - $nil) due from a director of the Company. The amount represents an advance to be refunded or applied against certain future expenses.

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.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) During the year ended December 31, 2007, the Company acquired equipment at a cost of $124,904, incurred mineral property expenditures of $152,136, acquired land at a cost of $1,382,864 and incurred plant construction expenditures of $176,205 through accounts payable. In addition, the Company incurred mineral property expenditures of $146,901 through asset retirement obligations and share issuance costs of $170,000 relating to the issuance of agent’s warrants.

b) During the year ended December 31, 2006, the Company acquired equipment at a cost of $216,032, incurred mineral property expenditures of $254,131 and share costs of $57,538 through accounts payable, and issued 30,000 common shares with a value of $105,000 towards mineral properties. In addition, the Company reclassified land costs of $360,899 previously recorded as mineral property costs to property, plant and equipment.

c) Cash and cash equivalents consisted of cash of $967,926 (2006: $13,737,903) and short-term investments of $15,736,156 (2006: $nil).

10. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2007	2006
Loss before income taxes	$ (3,310,490)	$ (2,207,195)
Income tax (recovery) at statutory rates	$ (1,135,797)	$ (797,239)
Foreign tax rate differences	(21,999)	-
Share issuance costs deductible for tax purposes	(199,425)	(147,215)
Non-deductible items	350,476	411,047
Unrecognized benefit of net operating losses	1,006,745	533,407
	$ -	$ -

Significant components of the Company's future income tax assets are as follows:

	2007	2006
Future income tax assets (liabilities):		
Non-capital loss carry forwards	$ 1,298,000	$ 737,000
Share issuance costs	503,000	397,000
Mineral properties	(1,596,000)	(1,002,000)
Less valuation allowance	(205,000)	(132,000)
	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses of approximately $4,257,000 in Canada. These losses, if not utilized, will expire up to 2027. Future tax benefits which may arise as a result of non-capital losses and share issuance costs have not been recognized in these financial statements and have been offset by a valuation allowance.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and long-term debt. 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.

12. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition, exploration and development of mineral property concessions. Geographic information is as follows:

	2006	2005
Capital assets:		
Canada	$ 4,740	$ 6,405
Ecuador	24,521,335	11,472,595
	$ 24,526,075	$ 11,479,000

13. SUBSEQUENT EVENTS

On March 10, 2008 the Company completed a non-brokered private placement of 2,500,000 common shares at $7.50 per share for gross proceeds of $18,750,000. In connection with the transaction, the Company paid finder's fees in cash and shares equal to 4.5% in aggregate of the gross proceeds of the transaction, issuing 56,675 shares valued at $7.50 each and paying cash of $418,687.