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

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars, unless otherwise noted)

DECEMBER 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dynasty Metals & Mining Inc.

We have audited the accompanying consolidated financial statements of Dynasty Metals & Mining Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dynasty Metals & Mining Inc. and its subsidiaries as at December 31, 2011 and 2010, and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Dynasty Metals & Mining Inc. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

March 29, 2012

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31,
Expressed in United States dollars unless otherwise noted

	2011	2010 (Note 14)
EXPENSES		
Amortization and accretion	$ 592,977	$ 494,123
Management fees	245,794	239,482
Office and general	2,371,200	2,131,659
Professional fees	850,820	622,510
Shareholder communication	272,939	121,325
Stock-based compensation (Note 8)	2,946,608	1,915,735
Transfer agent and filing fees	58,957	71,747
Travel and entertainment	332,440	272,937
	(7,671,735)	(5,869,518)
OTHER ITEMS		
Interest income	14,646	39,504
Write-off of abandoned properties (Note 6)	-	(174,947)
	14,646	(135,443)
Loss for the year	(7,657,089)	(6,004,961)
Other comprehensive Loss		
Foreign exchange loss on translation	-	(88,505)
Total comprehensive loss for the year	(7,657,089)	(6,093,466)
Basic and diluted loss per share	$ (0.18)	$ (0.15)
Weighted average number of shares outstanding	42,414,486	40,999,374

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

DYNASTY METALS & MINING INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Expressed in United States dollars unless otherwise noted

	December 31, 2011	December 31, 2010 (Note 14)	January 1, 2010 (Note 14)
ASSETS			
Current assets			
Cash	$ 6,238,514	$ 3,179,143	$ 7,610,790
Receivables	53,479	27,087	19,679
Prepaid expenses	394,450	285,215	166,318
Inventory (Note 4)	4,575,976	5,193,653	1,194,205
	11,262,419	8,685,098	8,990,992
Advances and deposits	76,688	115,409	52,857
Mine properties, plant and equipment (Note 5)	52,109,644	57,039,244	46,242,075
Exploration and evaluation properties (Note 6)	11,993,371	10,945,227	9,977,078
	$ 75,442,122	$ 76,784,978	$ 65,263,002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 4,870,324	$ 2,384,333	$ 1,024,734
Provision for closure and restoration (Note 7)	1,270,746	1,222,781	1,150,276
	6,141,070	3,607,114	2,175,010
Shareholders' equity			
Capital stock (Note 8)	89,059,365	87,803,364	73,427,492
Contributed surplus (Note 8)	12,848,842	10,324,566	8,517,100
Deficit	(32,607,155)	(24,861,561)	(18,856,600)
Accumulated other comprehensive loss	-	(88,505)	-
	69,301,052	73,177,864	63,087,992
	$ 75,442,122	$ 76,784,978	$ 65,263,002

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Robert Washer" Director   "Leonard Clough" Director

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

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

	Number of Shares	Capital Stock	Deficit	Contributed Surplus	Other Comprehensive Loss	Total
Balance at January 1, 2010 (Note 14)	38,095,758	$ 73,427,492	$ (18,856,600)	$ 8,517,100	$ -	$ 63,087,992
Issue of share capital, net	3,750,000	13,749,944	-	94,541	-	13,844,485
Net loss for the year	-	-	(6,004,961)	-	-	(6,004,961)
Other comprehensive 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	-	202,810	-	(202,810)	-	-
Stock-based compensation	-	-	-	1,915,735	-	1,915,735
Balance at December 31, 2010 (Note 14)	42,068,583	$ 87,803,364	$ (24,861,561)	$ 10,324,566	$ (88,505)	$ 73,177,864
Net loss for the year	-	-	(7,657,089)	-	-	(7,657,089)
Stock options exercised	392,500	833,669	-	-	-	833,669
Stock option and warrant conversion	-	422,332	-	(422,332)	-	-
Stock-based compensation	-	-	-	2,946,608	-	2,946,608
Functional currency translation adjustment (Note 2)	-	-	(88,505)	-	88,505	-
Balance at December 31, 2011	42,461,083	$ 89,059,365	$ (32,607,155)	$ 12,848,842	$ -	$ 69,301,052

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,
Expressed in United States dollars unless otherwise noted

	2011	2010 (Note 14)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (7,657,089)	$ (6,004,961)
Items not affecting cash:		
Amortization and accretion	592,977	494,123
Stock-based compensation	2,946,608	1,915,735
Write-off of abandoned properties	-	174,947
Changes in non-cash working capital items:		
Increase in receivables	(26,394)	(7,408)
Increase in prepaid expenses	(109,235)	(118,897)
(Increase) decrease in inventory	610,881	(3,512,019)
Increase (decrease) in accounts payable	(200,727)	496,944
Net cash used in operating activities	(3,842,979)	(6,561,536)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on exploration and evaluation properties	(1,048,144)	(1,251,902)
Exploration advances and deposits	38,721	(62,552)
Pre-production revenue credited to mine properties, plant and equipment	34,185,254	7,908,876
Expenditures on mine properties, plant and equipment	(27,107,150)	(18,631,027)
Net cash recovered (used) in investing activities	6,068,681	(12,036,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock and units	833,669	15,312,814
Issuance costs	-	(1,057,814)
Net cash provided by financing activities	833,669	14,255,000
Effect of change in foreign currency on cash	-	(88,506)
Change in cash for the year	3,059,371	(4,431,647)
Cash, beginning of year	3,179,143	7,610,790
Cash, end of year	$ 6,238,514	$ 3,179,143
Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income taxes	$ -	$ -
Cash received during the year for interest	$ 14,646	$ 39,504

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the laws of the Yukon Territory on June 28, 2000. The Company is in the business of acquiring, exploring and developing mineral concessions. All such concessions are currently situated in Ecuador. The address of the Company's corporate office and principal place of business is #270 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8.

On April 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 mine properties, plant and equipment, exploration and evaluation properties and certain other capital assets and the Company's ability to exploit these properties.

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

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As mentioned above, there are conditions and matters which indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

In the event the Company is unable to produce sufficient precious metals for sale in the future or secure additional working capital, from debt or equity financings or through the profitable sale of capital assets, these consolidated financial statements may require adjustments relating to the recoverability and classification of recorded assets and liabilities.

2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS

The Company previously prepared 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 IFRS and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2010. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements.

The year ended December 31, 2011 present the Company's first annual IFRS consolidated financial statements. 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

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

adoption of IFRS. These annual consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These 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 consolidated financial statements are based on IFRS issued and outstanding as at March 29, 2012, the date the Board of Directors approved the statements.

The disclosure in Note 14 provides IFRS information as at December 31, 2010 and January 1, 2010 and for the year ended December 31, 2010 that is material to the understanding of these consolidated financial statements.

Change in functional and presentation currency

The Companies overheads and expenses are now being primarily funded from the sale of precious metals produced during mine construction at its Zaruma Gold Project, which are denominated in the United States Dollars ("USD"), and given that the currency of Ecuador, where the majority of expenditures take place, is the United States Dollar, the Company's cash flows are anticipated to be principally denominated in United States Dollars. Accordingly, effective January 1, 2010, the Company changed both the functional currency of the Company and the currency in which it presents its consolidated financial statements, from Canadian Dollars ("CAD") to United States Dollars.

A change in presentation currency is accounted for as a change in accounting policy and is applied retrospectively, as if the new presentation currency had always been the presentation currency. Consequently, the comparatives for the year ended December 31, 2010 and as at, December 31, 2010 and 2009 have been restated to be presented in United States dollars using average exchange rates for income and expenses and the closing rate at the statement of financial position date for assets, liabilities and items related to equity. Capital stock and accumulated deficit have been translated using historic rates. Resulting exchange differences have been recognized within equity. The exchange rates applied for translation purposes were as follows:

Date or Period	Exchange Rate
As at December 31, 2010	1 USD = 1.0054 CAD
For the year ended December 31, 2010	1 USD = 1.0302 CAD
As at January 1, 2010	1 USD = 1.0509 CAD

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.

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

Principles of consolidation (cont'd)

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

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.

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 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.

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

Mine properties, plant and equipment (cont'd)

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.

Amortization methods and useful lives are reviewed at each annual reporting date and adjusted as appropriate. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

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

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.

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

Stock-based compensation (cont'd)

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 goods or services received. If 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.

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 loss, 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

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 to be probable.

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

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

Financial assets (cont'd)

recognition plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except

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 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 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.

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.

4. INVENTORY

	December 31 2011	December 31 2010	January 1 2010
Materials and supplies	$ 1,859,963	$ 1,962,410	$ 786,500
Finished goods	2,716,013	3,231,243	407,705
	$ 4,575,976	$ 5,193,653	$ 1,194,205

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

5. MINE PROPERTIES, PLANT AND EQUIPMENT

Net carrying costs at December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

	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

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

Mines under construction

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

Plant and equipment

The Company has completed the construction of a production facility to process material extracted from its Zaruma Gold Project. Plant construction includes the cost of engineering, materials, construction labor, machinery, equipment and the operating costs of commissioning the plant until June 30, 2010. Subsequent to this date the Company commenced amortizing the plant over its estimated useful life. As at December 31, 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.

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

Land and building

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

6. EXPLORATION AND EVALUATION PROPERTIES

Title to exploration and evaluation properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, titles to all of its properties, except as described below, are properly registered and in good standing.

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 year	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	18,490	-	-	18,490
Geological consulting	71,719	11,951	-	83,670
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

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% Net Smelter Return ("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 1570926 Alberta Ltd. who acquired the rights to the Royalty from IAMGOLD Ecuador S.A. ("IAMGOLD") in 2011. The Company has no work obligations with respect to the project concessions.

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.

6. EXPLORATION AND EVALUATION PROPERTIES (cont'd)

Jerusalem Project

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

The project is subject to 1% NSR royalty, 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 known as the Dynasty Copper-Gold Belt consists of 52, 100% owned concessions.

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

Other Projects

The Company abandoned several concessions located at other projects during the year ended December 31, 2010. These concessions were not significant to the Company's future exploration or development plans. Costs that had been previously capitalized relating to these concessions were written-off.

7. PROVISION FOR CLOSURE AND RESTORATION

The Company's environmental permit at the Zaruma Gold Project requires that it reclaim any land it disturbs during the mine and plant construction and operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to December 31, 2011 to be $1,270,746 (2010 - $1,222,781). The present value of the future reclamation obligation assumes an inflation rate of 2.5% and a discount rate of 4.0%, an undiscounted amount to settle the obligation of $1,324,000 and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

	December 31 2011	December 31 2010
Balance, beginning of year	$ 1,222,781	$ 1,150,276
Accretion expense	47,965	72,505
Balance, end of year	$ 1,270,746	$ 1,222,781

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized and issued shares

At December 31, 2011, the Company had unlimited authorized common shares and 42,461,083 shares outstanding (2010 – 42,068,583). All per share amounts below are in Canadian dollars (CAD) which, at December 31, 2011, is equivalent to 1.0231 US dollars.

On April 1, 2010, the Company issued 3,750,000 Units at a price of CAD$4.00 per Unit for gross proceeds of CAD$15,000,000, by way of an underwritten private placement. Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant was convertible at a price of CAD$5.00 until April 1, 2011. In connection with the transaction, the Company paid cash commission of $875,250, other issuance

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

Authorized and issued shares (cont'd)

costs of $170,093 and granted the agent warrants to purchase 225,000 common shares at CAD$4.16 per share for a period of one year. The agents warrants were valued at $166,723 using the Black-Scholes option pricing model with a weighted average expected volatility of 51.67%, risk free interest rate of 2.02%, expected life of 1 year and dividend yield of 0%.

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 no less than the market price of the Company's common shares at the date of grant. The options can be granted for a maximum term of 10 years. The Company's Board of Directors determines the vesting requirements for options granted. The Company received shareholder approval at its 2009 Annual General Meeting to grant a maximum of 7,118,225 options.

The Company uses a fair value method of accounting for all stock-based payments. Under this method, the Company recorded a stock-based compensation expense of $2,946,608 for the year ended December 31, 2011 (2010 - $1,915,735) with a corresponding credit to contributed surplus. The fair value of the stock options is estimated as at the date of the grant using the Black-Scholes pricing model assuming the following weighted average assumptions:

	2011	2010
Risk-free interest rate	1.23%	1.80%
Expected life	3.39 years	4.01 years
Annualized volatility	82.46%	87.56%
Pre-vest forfeiture rate	10.00%	10.00%
Dividend rate	0.00%	0.00%

During fiscal 2011, the Company granted 1,688,000 (2010 – 580,300) options with a fair value of $2,795,273 (2010 - $773,794), which is being recognized over the vesting periods of the options.

The continuity of incentive stock options and warrants issued and outstanding is as follows:

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

Stock options and warrants (cont'd

	Warrants			Stock options		
	Number		Weighted Average Exercise Price (CAD$)	Number		Weighted Average Exercise Price (CAD$)
Balance, December 31, 2009	190,000	$	4.42	4,124,325	$	4.34
Granted	2,100,000		4.92	580,300		4.14
Exercised	(40,000)		4.24	(182,825)		1.46
Expired	(150,000)		4.46	(271,200)		4.74
Balance, December 31, 2010	2,100,000		4.92	4,250,600		4.41
Granted	-		-	1,688,000		3.13
Exercised	-		-	(392,500)		2.09
Forfeited	-		-	(955,750)		4.20
Expired	(2,100,000)		4.92	(50,000)		3.48
Balance, December 31, 2011	-	$	-	4,540,350	$	4.19

The following stock options were outstanding as at December 31, 2011:

	Options outstanding			Options exercisable	
Exercise price range	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CAD$	Number of stock options exercisable	Weighted average exercise price CAD$
$2.00 - $3.35	1,759,000	4.41	2.92	1,630,000	2.91
$3.36 - $4.55	587,300	1.94	3.93	440,650	3.98
$4.56 - $5.45	2,094,050	2.33	5.21	1,861,550	5.24
$5.46 - $7.45	100,000	0.50	6.63	100,000	6.63
	4,540,350	3.04	4.19	4,032,200	4.19

In 2011, 392,500 options were exercised (2010 – 182,825) which resulted in the issuance of an equal number of common shares. The weighted average fair value per stock option granted during fiscal 2010 was $1.73 (2010 - $2.62) per option.

As at December 31, 2011, the non-vested stock-based compensation expense not yet recognized was $317,693 which is to be recognized over the next 15.2 months.

Subsequent to December 31, 2011, the Company granted options to purchase 245,000 common shares at CAD$3.00 per share, expiring February 7, 2017; extended the expiry date of 150,000 previously granted options to purchase common shares at CAD$4.50 per share, expiring February 23, 2017; and cancelled 196,050 options to purchase common shares at CAD$5.28 per share upon their expiry.

9. 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.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) During the year ended December 31, 2011, the Company acquired inventory at a cost of $480,033, acquired land at a cost of $80,000, incurred plant construction expenditures of $270,753 and incurred mine development expenditures of $3,590,327 through accounts payable. In addition, the Company capitalized $1,349,970 and $1,961,997 of amortization on mining equipment and the plant, respectively to mine development costs.

b) During the year ended December 31, 2010, the Company acquired inventory at a cost of $487,430, acquired land at a cost of $80,000, incurred plant construction expenditures of $136,870 and incurred mine development expenditures of $1,030,694 through accounts payable. In addition, the Company capitalized $1,282,778 and $1,038,046 of amortization on mining equipment and the plant, respectively to mine development costs, and incurred share issuance costs of $97,212 relating to the issuance of agent's warrants.

11. INCOME TAXES

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

	2011	2010
Loss before income taxes	$ (7,657,089)	$ (6,093,467)
Income tax (recovery) at statutory rates	$ (2,029,128)	$ (1,737,000)
Impact of different foreign statutory tax rates on earnings of subsidiaries	2,812,904	(323,000)
Non-deductible expenditures	1,405,946	627,000
Change in unrecognized deductible temporary differences	119,000	1,849,000
Foreign exchange, share issue costs and other	(614,358)	(416,000)
	$ 1,694,364	$ -

11. INCOME TAXES (cont'd)

Income tax arising during the pre-commercial phase of operations is capitalized to mines under construction.

Significant components of the Company's deferred tax assets and liabilities that have not been set up are as follows:

	2011	2010
Deferred tax assets (liabilities):		
Exploration and evaluation properties	$ (579,000)	$ 322,000
Non-capital loss carry forwards	3,795,000	3,902,000
Share issuance costs	320,000	532,000
Mine properties, plant and equipment	(937,000)	(2,303,000)
Unrecognized deferred tax assets (liabilities)	$ 2,599,000	$ 2,453,000

Deductible temporary differences, unused tax losses and unused tax credits:

	2011	2010	Expiry Date Range
Share issue costs	$ 1,278,000	$ 2,128,000	2031 to 2034
Non-capital losses - Canadian	11,284,000	9,759,000	2014 to 2031
Non-capital losses - Ecuador	4,233,000	6,360,000	2015 to 2016
Exploration and evaluation properties	(2,317,000)	1,288,000	Not applicable
Mine properties, plant and equipment	(3,810,000)	(9,212,000)	Not applicable

12. CAPITAL DISCLOSURE

The Company's capital currently consists of common shares, options and warrants. As the Company is in the early stage production phase for the year ended December 31, 2011 its principal source of funds is from the production and sale of precious metals and it is not subject to any externally imposed capital restrictions. The Company's capital management objectives are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to have sufficient capital to be able to meet the Company's property development and exploration plans. These objectives have not changed during the year ended December 31, 2011.

13. FINANCIAL INSTRUMENTS

Financial assets and liabilities

The fair value hierarchy establishes three levels in which to classify the inputs of valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity) such as non-corroborative indicative prices for a particular instrument provided by a third party.

13. FINANCIAL INSTRUMENTS (cont'd)

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

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and 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 December 31, 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 December 31, 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 $10,300. 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 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.

14. 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 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.

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

	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
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)

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

(i) 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.

(ii) 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.

(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 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".

(iii) Shareholders' equity

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