DYNASTY METALS & MINING INC.

(the "Company", or the "Corporation")

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

Date and Subject of this Discussion and Analysis

This discussion and analysis, made as of November 12, 2010, is integral to, and should be read in conjunction with, the Company's unaudited financial statements for the three and nine months ended September 30, 2010, the Company's audited financial statements for the year ended December 31, 2009, and the Company's Technical Reports dated October 30, 2007, August 21, 2006 , April 21, 2006, February 27, 2006, October 21, 2005, December 22, 2004 and October 29, 2004 and October 22, 2004, each of which was prepared by an independent "qualified person", as defined in National Instrument 43-101 ("NI 43-101") of the Canadian Securities Administrators. These documents, and additional information relating to the Company, are available for viewing at www.sedar.com (the "SEDAR Website").

Cautionary Statement Regarding Forward Looking Statements

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

Cautionary Note to United States Investors

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

Ecuador Mining Legislation

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

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

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

Although the Company has commenced preliminary discussions with government authorities regarding an exploitation contract it is not currently possible to estimate when a definitive agreement may be reached, nor is it possible to predict the substantive terms and conditions that will be included in such agreement (see "Uncertain Mining Legislation" within the "Critical Risk Factors" section of this discussion and analysis). During the three months ended September 30, 2010 the Company has accrued for a reasonable estimate of the anticipated royalty from the sale of metals, for future remittance.

Description of Business

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

The Company is in the business of acquiring, exploring and developing mineral concessions in Ecuador. The Company has successfully commissioned the processing plant at its Zaruma Gold Project, however, since the Company is in the early production phase, the Company does not currently generate positive cash flow from operations after deducting operating, capital and corporate expenses. Until such time as the Company generates positive cash flow, continuing operations are dependent upon the Company's ability to secure additional capital as required.

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

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

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

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

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

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

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

share (out of a total of 1,000 for Greentrade and a total of 800 for Greenmining and Minsupport) each of Greentrade, Greenmining and Minsupport to a third party to hold in trust for the Greentrade Ecuador.

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

Zaruma Gold Project

Zaruma Gold Project Properties

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 agreement (see below). The Company has title to the remaining concession and has paid the majority of applicable option payments on this concession.

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

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

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

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

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

The Company is aware of actions taken by other parties to secure ownership of a concession within the Zaruma Gold Project and access certain other concessions. The Company believes that these actions are unlawful and has taken steps to protect its interest.

Zaruma Gold Project Plant Operations

The Company received the necessary permits to construct and operate a mill capable of processing 500,000 tons of ore per annum at Zaruma under prior mining legislation. The Company has not received any notification from the Ecuadorian Authorities, nor is it aware of any additional procedures required under the new Mining Law, that may affect the standing of these permits. The Company expects to make additional applications to increase the amount of permitted tonnage it can process at Zaruma in the future.

Although our current target for the first steady state production level is 300,000 tonnes per annum, the installed capacity of the plant, excluding the wet section, is approximately 800,000 tonnes per annum, allowing for considerable expansion without additional significant capital cost in the future.

The Company has successfully commissioned all sections of its gold processing plant at Zaruma, and on September 28, 2009 announced it had poured its first dory bars, containing approximately 320 ounces of gold and 1,600 ounces of silver, which was processed from non-resource material extracted during the construction of the declines. During October and November, 2009 the Company ran the mill on an intermittent basis while a number of refinements were made, the most significant of which were an upgrade to the electrical systems and design upgrades to the wet section, which will allow for easier installation of additional tanks to increase plant capacity without a material interruption to production in the future.

The plant was restarted in late December 2009 and during 2010 it has been operating at less than scheduled capacity while the declines accessing the resources continue to be developed. The plant has been stress tested to near capacity with non-resource material stockpiled during the mine development (see "Zaruma Gold Project Mine Development" below).

During the three months ended September 30, 2010 the Company exported 3,453 ounces of gold to a Canadian refinery which was sold for gross proceeds of US$4.3 million. Subsequent to September 30, 2010 the Company has exported an additional 1,730 ounces realizing gross proceeds of US$2.4 million. As at September 30, 2010 the Company had approximately 820 ounces of gold and 16,100 ounces of silver contained in dory bars, which is recorded as inventory in the consolidated financial statements, net off an estimated 5% royalty payable to the government of Ecuador, a 1.5% net smelter return royalty payable to IAMGOLD and estimated refining and transportation fees. The Company has not recorded the estimated amount of inventories in the circuit or stockpiled ore as work in progress as at September 30, 2010 and does not currently intend to record this until the project is in commercial production.

As at September 30, 2010, total capital expenditure relating to the construction and commissioning of the plant as well as operating the plant during the pre-commercial production phase while the mines are being developed was approximately $21 million. During the three months ended September 30, 2010 the Company made the decision to construct a sub-station to connect the plant and its main mine, "Cabo de Hornos", to the main power grid. The estimated capital expenditure for completing this is US$1.2 million and when complete will reduce the Company's reliance on diesel generators, allow for the control of a more independent power supply and reduce operating expenditures.

The Company does not currently anticipate any significant additional capital expenditure will be required, unless a decision is made to expand the capacity of the wet section of the facility. The current estimated capital expenditure to upgrade the wet section, so that it is capable of processing 800,000 tonnes per annum, is approximately $3 million.

Zaruma Gold Project Mine Development

The Company continues construction of three declines to access the resource and is carrying out further exploration activities to identify sites for new declines should they be required in the future. Material excavated during the construction of the declines up to September 30, 2010 has continued to be stockpiled and processed.

During the third quarter of this year the Company hired 30 additional local employees to work at the mines, continued to train local workers for skilled positions and hired additional experienced Australian and Canadian mine managers to facilitate increased future production and overall mining efficiencies.

As at the date of this report, between the three declines, the Company has developed over 4 kilometers of tunnels to a vertical depth of between 100 to over 250 metres, depending on the decline. The Company commenced mining the start of the resource at its main decline "Cabo de Hornos" in late July, 2010. The Company reached the resource at its second decline "Barbasco" at the end of the second quarter of this year and currently expects to commence mining the resource in the fourth quarter of this year. The Company reached the resource at its third decline, "Ayampamba", earlier in the third quarter of this year and is now in the process of developing the resource for future extraction in the coming months.

The Company expects that sometime within the first quarter of 2011, it will be mining and delivering to the Zaruma plant 800 tonnes of material per day, or the approximate annual equivalent of 300,000 tonnes per annum, which is the first targeted steady state production level. These projections are based on current operations, mine plans and exploration results, which are subject to change (see "Critical Risk Factors" section of this discussion and analysis) and as such cannot be assured.

As at September 30, 2010 total capital expenditure on mine development activities and the purchase of mining equipment was approximately $19.3 million and $9.1 million respectively.

Jerusalem Project

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

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

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

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

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

The Company's preliminary assessment report dated February 27, 2006 (the "Holly Jerusalem Report"), is based upon the Jerusalem project's known resources and prepared by W.J. Holly, MAustIMM, FFin., an independent "Qualified Person" as determined by NI 43-101. The Holly Jerusalem Report is the only independent preliminary assessment the Company has on the Jerusalem Project. It is currently the Company's intention to reassess the timing and development of the Jerusalem Project, which may include updating the independent preliminary assessment report, once we have agreed an exploitation contract with the Ecuadorian government. The Holly Jerusalem Report, which is available for viewing at the SEDAR Website, makes the following estimates and conclusions:

- cash flow before taxes and royalty (undiscounted) — US$297,000,000
- gold and silver values — Gold – US$500/ounce: Silver – US$7.50/ounce
- estimated mine life over two stages — 8.5 years
- total mineable resources — 2,121,358 tonnes
- total metals recovered — 834,251 ounces gold and 7,277,610 ounces silver
- total direct capital costs — US$25,000,000
- cash operating cost per gold-equivalent ounce — US$185 (approx.)

As required by NI 43-101, it should be noted that the foregoing estimates are based, in part, upon the Company's previous estimate of resources, which includes 427,619 ounces gold classified as "inferred resources". Inferred Resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. As such there is no certainty that the estimates contained in the Holly Jerusalem Report will be realized. It should also be noted that a "preliminary assessment" report is not a feasibility report and should not be relied upon as such. Furthermore, the preliminary assessment was prepared in February 2006, and since this date certain variables including gold values and the cash operating cost per ounce have altered.

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

Dynasty Copper-Gold Project

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

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

The Dynasty Goldfield

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

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

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

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

Copper Duke

The Copper Duke project area includes 11 core concessions covering approximately 100 sq. km. These core concessions cover a number of gold and porphyry occurrences and are located in Catacocha (Paltas) county, Province of Loja, approximately 60 km southwest of the nearest commercial airport.
To date, a major copper-gold porphyry complex, El Huato, and an additional four porphyry copper systems and two gold targets have been identified. Of the porphyry copper systems, Loma Redonda has been explored, while three others, Rio Catamayo, Landaluma and Barbasco are at the prospecting stage. Both of the gold targets, Ningomine and El Palton, have previously been actively explored.

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

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

Results of Operations

The Company incurred a loss of $4,878,492 for the nine months ended September 30, 2010, as compared to a loss of $4,278,077 for the nine months ended September 30, 2009. These losses include non-cash-based deductions for stock-based

compensation, amortization and accretion in the aggregate amounts of $2,251,567 and $1,902,609, respectively. Excluding non-cash-based deductions, operating expenses for the nine months ended September 30, 2010 increased by approximately $288,300, primarily attributable to:

- an increase in office and general expenses of $308,490 primarily due to increased administrative duties to manage the increase in employees and an increase in general activity; and

- an increase in professional fees of $45,234 primarily as a result of additional legal fees incurred by the Company to monitor compliance with the changes in the Mining Law that were published towards the end of fiscal 2009.

The Company recorded no revenues other than interest income within the Consolidated Statements of Operations, Comprehensive Loss and Deficit during the periods. Interest income from funds on deposit was $30,174 for the nine months ended September 30, 2010, as compared to interest income of $28,252 for the nine months ended September 30, 2009. The increase in interest income is a result of a higher average cash balance for the nine months ended September 30, 2010. Revenues received from the sale of metals have been, and will continue to be, capitalized as mine development costs until the commencement of commercial production (see "Critical Accounting Estimates and Policies" section of this discussion and analysis).

The Company incurred a loss of $1,454,676 for the three months ended September 30, 2010, as compared to a loss of $1,197,018 for the three months ended September 30, 2009. These losses include non-cash-based deductions for stock-based compensation, and amortization and accretion in the aggregate amounts of $880,780 and $721,884, respectively. Excluding non-cash-based deductions, operating expenses for the three months ended September 30, 2010 increased by approximately $158,896 primarily attributable to:

- an increase in office and general expenses of $233,647 primarily due to increased administrative duties to manage the increase in employees and an increase in general activity; and

- a stronger average Canadian dollar as compared to the US dollar. The majority of the Company's expenses are incurred in US dollars and translating these expenses to Canadian dollars for reporting purposes decreased the Canadian dollar costs as compared to the same period last year.

The Company recorded no revenues other than interest income within the Consolidated Statements of Operations, Comprehensive Loss and Deficit during the periods. Interest income from funds on deposit was $10,678 for the three months ended September 30, 2010, as compared to interest income of $2,697 for the three months ended September 30, 2009.

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

	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Revenues	$ -	$ -	$ -	$ -
Net loss	$(1,454,676)(1)	$ (872,939)(2)	$(2,550,877)(3)	$(4,033,244)(4)
Net loss per share	$(0.03)	$(0.02)	$(0.07)	$(0.11)

	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Revenues	$ -	$ -	$ -	$ -
Net income loss	$ (1,197,018)(5)	$ (1,433,172)(6)	$(1,647,887)(7)	$(167,674)(8)
Net loss per share	$(0.03)	$(0.04)	$(0.05)	$(0.02)

Notes:

(1) The Company's loss during this period includes non-cash deductions of $299,043 and $116,960 for stock-based compensation, in connection with the granting of 205,300 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.
(2) The Company's loss during this period includes non-cash deductions of $316,663 and $108,862 for stock-based compensation, in connection with the granting of 80,000 options and with the vesting of certain options previously granted, and amortization and accretion,

respectively. The value of the options is amortized over the periods in which they vest.

(3) The Company's loss during this period includes non-cash deductions of $1,313,800 and $96,239 for stock-based compensation, in connection with the granting of 140,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(4) The Company's loss during this period includes non-cash deductions of $3,187,013 and $67,363 for stock-based compensation, in connection with the granting of 1,000,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(5) The Company's loss during this period includes non-cash deductions of $387,500 and $13,389 for stock-based compensation, in connection with the granting of 435,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(6) The Company's loss during this period includes non-cash deductions of $266,600 and $67,118 for stock-based compensation, in connection with the granting of 300,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(7) The Company's loss during this period includes non-cash deductions of $1,075,550 and $92,532 for stock-based compensation, in connection with the granting of 1,000,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

(8) The Company's loss during this period includes non-cash deductions of $107,500 and $3,733 for stock-based compensation, in connection with the granting of 413,000 options and with the vesting of certain options previously granted, and amortization and accretion, respectively. The value of the options is amortized over the periods in which they vest.

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

Capital Expenditures

Mineral Properties and Mine Development

It is the Company's policy to defer all acquisition, exploration and development costs, including certain field office expenses, until the properties to which they relate are placed into production, sold, abandoned, or have been determined by management to have been impaired in value.

During the nine months ended September 30, 2010, the Company spent a total of $1,268,334 in connection with the exploration and maintenance of its mineral properties, compared to $1,699,708 for the nine months ended September 30, 2009. The decrease was primarily due to the net effect of increased annual concession fees that the Company is required to pay under the terms of the new Mining Law which is offset by decreased exploration costs while the Company has been primarily focused on developing the Zaruma Gold Project towards commercial production.

Most of the capitalized expenditures relating to the advancement of mineral properties (see table, below) were incurred in connection with the Company's Dynasty Copper-Gold and Zaruma Gold Projects and related to the payment of annual concession fees and other administrative costs in maintaining and developing the properties. These expenditures have been deferred and included in "Mineral Properties" in the Company's consolidated balance sheet. The Company considers the Zaruma Gold Project to be a development project, while the others are considered exploration projects. A description and breakdown of these expenditures is as follows:

	Dynasty Project	Zaruma Project	Jerusalem Project	Other Projects	Total
Balance, December 31, 2009	$ 9,342,712	$ 7,286,356	$ 1,643,656	$ 337,284	$ 18,610,008
Costs					
Camp supplies and field costs	8,662	-	5,363	-	14,025
Geological consulting	89,075	16,897	17,633	-	123,605
Laboratory fees	1,685	1,802	1,237	-	4,724
Mineral concession rights	795,327	151,441	5,621	22,029	974,420
Project administration	49,986	35,317	19,748	-	105,051
Travel and related costs	39,771	8	5,569	1,163	46,509
Additions for the period	984,506	205,465	55,171	23,192	1,268,334
Balance, September 30, 2010	$ 10,327,218	$ 7,491,821	$ 1,683,827	$ 360,476	$ 19,878,342

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

Mine development costs include all direct costs associated with the development of portals to access to the Company's resource at its Zaruma Gold Project and the pre-commercial operating costs of the Zaruma Gold Project processing plant from July 1, 2010. During the nine months ended September 30, 2010 the Company spent a total of $6,543,186 in connection with mine development costs, which is net of a recovery of $4,505,222 relating to the sale of gold and $1,342,321 relating to the estimated net recoverable value of gold and silver produced from the material mined and in inventory as at September 30, 2010. During the nine months ended September 30, 2010 the Company spent a total of $5,660,293 in connection with mine development costs. Total mine development costs capitalized as at September 30, 2010 was $19,565,506 (December 31, 2009 - $13,022,320).

Financial Condition, Liquidity and Capital Resources

As at September 30, 2010, the Company had cash resources of $6,735,350 and cash resources less current liabilities of $5,385,890. As at the date of this report the Company has no contracted capital commitments, however the Company plans to spend most of its remaining working capital on the continued development of portals to access the resources and the associated start up costs and working capital needed at the Zaruma Gold Project, and, to the extent that additional funds are available, on the exploration and development of its other mineral properties. The Company's budgeted expenditures may increase or decrease depending upon several factors, some of which are not within the control of management, including the future availability of capital.

During the nine months ended September 30, 2010, the Company raised $15,000,000 from a private placement, $300,462 from the exercise of warrants and options (see "Additional Information"), sold gold for $4,505,222 and spent cash in the approximate amount of $19.9 million on its mineral properties, plant construction, mine development, other capital assets, and operations.

Management reviews each of the Company's properties periodically and amends the Company's exploration and development plans and budgets, accordingly. As at the date of this report, the Company does not anticipate that it will require additional capital over the next twelve months, to meet its primary objective of developing the Zaruma Gold Project into a commercially viable operation. However, since the Company is currently in the early production phase, the cash flow generated from revenue does not exceed operating, capital and corporate expenses. As a consequence, until such time as the Company generates positive cash flow, continuing operations are dependent upon the Company's ability to secure additional

capital as required.

Related Party Transactions

The Company entered into the following transactions with related parties during the nine months ended September 30, 2010 and 2009:

a) paid or accrued professional fees of $66,149 (2009 - $52,442) to a law firm in Ecuador with which a director of the Company is affiliated;

b) paid or accrued fees of $126,698 (2009 - 51,221) for professional fees to a director of the Company; and

c) paid management fees of $233,787 (2009 - $263,175) to a company controlled by the President and Chief Executive Officer of the Company of which $175,340 (2009 - $197,381) were capitalized and included in either mineral property, mine development or plant construction costs.

Included in accounts payable at September 30, 2010 is $nil (December 31, 2009 - $4,587) due to a law firm with which a current director is affiliated and $28,400 (2009 - $nil) due to directors and companies controlled by directors of the Company.

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

Critical Accounting Estimates and Policies

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

Mineral properties and mine development costs
All costs related to the acquisition, exploration, evaluation and development of mineral properties, including mine development costs, 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 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.

Start-up and commissioning costs, net of incidental revenues, are capitalised as mine development costs until the commencement of commercial production. Commercial production is deemed to have occurred when management determines that the completion of operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time, and there are indicators that these operating results will continue.

The amounts shown for mineral properties and mine development costs 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.

Plant construction
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 and equipment that are integral to the operation of the plant as well as the cost of commissioning the plant until June 30, 2010. Such costs are being amortized over the plant's estimated useful life.

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.

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.

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.

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.

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.

New Accounting Standards

Future Accounting Changes:

Business Combinations, Non-controlling Interest and Consolidated Financial Statements
In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently. The Company is currently evaluating the impact of these new Sections.

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.

The process of changing from Canadian GAAP to IFRS will be a significant undertaking that may materially affect reporting financial position and results of operations, and may also affect certain business functions. Management has developed a project plan for the implementation of IFRS based on the current nature of operations. The implementation plan is comprised of three phases:

Phase 1 - Diagnostic phase, which included the assessment of the overall impact and effort required by the Company in order to transition to IFRS was completed in 2009;

Phase 2 - Development and planning phase, which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company's first quarter reporting under IFRS. In this phase, the Company will perform a detailed assessment and technical analysis of each area identified from phase 1 that will result in the conclusion of IFRS transitional adjustments, decisions on accounting policy choices and the drafting of accounting policies. The Company has started this second phase with completion expected in the fourth quarter of 2010; and,

Phase 3 - Implementation phase, which will include the preparation of an IFRS compliant opening balance sheet as at January 1, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements and will be carried out in the fourth quarter of 2010.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards"
IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. During the second quarter of 2010, management will prepare an analysis which will focus on the key issues and transitional choices under IFRS 1 applicable to the Company.

Expected Areas of Accounting Policy Differences
Based on phase 1 and the work to date under phase 2 of the project plan a number of key accounting areas were identified where IFRS differs from Canadian GAAP, which are expected to have an impact, with varying degrees of materiality, on the Company's financial statements, which include:

Impairment of Assets
Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This transition to IFRS is not currently expected to have a material impact on the Company's financial statements.

Property, Plant and Equipment
Under IFRS, Property, Plant and Equipment ("PP&E") can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited. Upon adoption of IFRS, the Company will elect to use the cost model which, which based on the current review, will result in no material impact on the property, plant and equipment balances.

In accordance with IAS 16 "Property, Plant and Equipment", upon acquisition of significant assets, the Company will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern. As part of phase 2, the Company is quantifying its assets, and assessing significant components for IFRS transition purposes as well as transition to commercial production which will mark the start of amortization on the Company's significant assets.

Foreign Currency

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and the entity's financial results and position should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Currently the functional currency of the consolidated entity is the Canadian dollar which is also the presentation currency of the Company's financial statements.

As events and conditions relevant to the Company change, it will re-consider the primary and secondary indicators, as described in IAS 21, in determining the functional currency for each entity. Going forward the impact to the Company of the transition to IFRS will be dependent on the selection of the functional currency of its foreign subsidiaries, which the Company is currently in the process of reviewing as part of phase 2.

Share Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share – based transactions with only a few differences.

Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the straight line method. IFRS 2, on the other hand allows only the accelerated method.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur.

Upon adoption of IFRS 2, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition. The quantification of this impact is currently under review.

Exploration and Evaluation Assets

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized.

Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation assets. The Company can decide to apply the International Accounting Standards Board ("IASB") Framework which requires exploration expenditures to be expensed and capitalization of expenditures only after the completion of a feasibility study or disregard the IASB Framework and keep the existing Company's policy, if relevant and reliable. Management has yet to decide on whether or not to fully adopt IFRS 6, "Exploration and Evaluation of Mineral Properties", and apply the IASB framework.

As the Company elects and approves the IFRS accounting policy for each of the areas above, we will determine and disclose the impact of the IFRS adoption at the transition date on our financial statements. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

Presentation and Disclosure

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its consolidated financial statements.

Financial Reporting Expertise

The Company has identified resource requirements to establish appropriate IFRS financial reporting expertise at all levels of the business and key financial staff continue to attend IFRS training and education sessions. The Company also intends to continue to consult with its auditors to ensure agreement with adoption of IFRSs.

Information Technology

Based on management assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

Business Activities
Based on management assessment, the impact on business activities are expected to be minimal primarily since the Company has not debt covenants, contracts or other arrangements that have reference or are effected by GAAP.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures
The Company continues to assess the changes necessitated to maintain the integrity of internal controls over financial reporting and disclosure control procedures. As assessed in the diagnostic phase, management has determined that control procedures in place are properly designed and operating effectively to substantially mitigate financial misstatement in the transition to IFRS. The Company will continue to monitor and assess these controls on an on-going basis to the extent that they may be impacted by future accounting policies under IFRS.

All analysis and conclusions are based on the IFRSs effective as at September 30, 2010. In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

Critical Risk Factors

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

Financing Risk
The Company is an exploration stage company engaged in the exploration of mineral properties, and is not in commercial production. As a consequence, the Company does not generate cash flow from operations and it will not be positioned to generate cash flow from operations until it commences commercial production. Continuing operations are, therefore, dependent upon the Company's ability to secure additional capital as required, which is not assured. While the Company has been successful in raising funds in the past, the global credit crisis has resulted in a shortage of risk capital in the junior resource industry and may result in the Company not being able to raise funds in the future if required.

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

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

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

be subject to unregistered prior agreements or transfers and title may be affected by undetected defects or the rights of indigenous peoples.

Economic Risk

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

Foreign Country and Political Risk

All of the Company's mineral properties are located in Ecuador, South America. As a result, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability in Ecuador, which may result in the impairment or loss of mineral concessions or other mineral rights. In recent history, Ecuador has undergone numerous political changes at the presidential and congressional levels. Also, mineral exploration and mining activities may be affected in varying degrees by political instability and government regulations relating to the mining industry.

Changes in regulations or shifts in political attitudes may also adversely affect the Company's business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and mine and/or site safety.

Uncertain Mining Legislation

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

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

Mining and Resource Risks of Exploration and Development

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

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

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

It is impossible to ensure that future exploration programs and feasibility studies on the Company's existing mineral properties will establish reserves. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which cannot be predicted and which have been highly volatile in the past; mining, processing and transportation costs; perceived levels of political risk and the willingness of lenders and investors to provide project financing; and governmental regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and

exporting materials, foreign exchange, environmental protection and reclamation and closure obligations. The effect of these factors cannot be accurately predicted, but any one, or a combination of, these factors may cause a mineral deposit that has been mined profitably in the past, to become unprofitable. The Company is subject to the risks normally encountered in the mining industry, such as unusual or unexpected geological formations as well as political and economic risks associated with developing nations. The Company may be subject to liability for pollution or against other hazards against which it cannot insure or against which it may elect not to insure.

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

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

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

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

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

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

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

Although the Company believes that it is in compliance with all material laws and regulations that currently apply to its activities, there may be unforeseen environmental liabilities resulting from exploration and/or mining activities and these

may be costly to remedy. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

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

Surface Rights and Access
Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities; however, the enforcement of such rights can be costly and time consuming.
In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the legal right to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction.

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

Financial Instruments

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

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

Additional Information

Securities Issued During the Period
During the nine months ended September 30, 2010, the Company issued:

a) 3,750,000 Units, consisting of 3,750,000 common shares and 1,875,000 common share purchase warrants upon completion of an underwritten private placement for proceeds of $15,000,000. Each warrant is exercisable at a price of $5.00, expiring on April 1, 2011;
b) 105,700 common shares upon the exercise of incentive stock options at $1.05 each;
c) 10,000 common shares upon the exercise of incentive stock options at $2.00 each;
d) 40,000 common shares upon the exercise of broker warrants at $4.24 each;
e) incentive stock options to purchase 165,000 common shares at $3.81 each
f) incentive stock options to purchase 80,000 common shares at $3.95 each;
g) incentive stock options to purchase 40,300 common shares at $4.12 each
h) incentive stock options to purchase 90,000 common shares at $4.07 each;

i) incentive stock options to purchase 50,000 common shares at $5.45 each; and
j) broker warrants to purchase 225,000 common shares at $4.16 each in connection with an underwritten private placement.

Securities Cancelled During the Period
During the nine months ended September 30, 2010, the Company cancelled previously issued options to purchase 105,700 common shares at $1.05 each upon their exercise, cancelled previously issued options to purchase 10,000 common shares at $2.00 each upon their exercise, cancelled previously issued broker warrants to purchase 40,000 common shares at $4.24 each upon their exercise, cancelled previously issued options to purchase 11,200 options at $1.05 each upon their expiry, cancelled previously issued options to purchase 75,000 options at $5.00 each upon their expiry, cancelled previously issued options to purchase 80,000 options at $6.00 each upon their expiry and cancelled previously issued broker warrants to purchase 60,000 common shares at $4.24 each upon their expiry.

Securities Issued At End Of Period
On September 30, 2010, the Company had 42,001,458 common shares issued and outstanding. There are 42,009,958 common shares issued and outstanding as at the date of this report.

There are outstanding incentive stock options to purchase 4,341,225 common shares of the Company as at the date of this report, as follows:

Number	Exercise Price	Expiry Date
370,000	$ 2.10	January 9, 2011
50,000	$ 3.48	March 15, 2011
150,000	$ 4.50	February 23, 2012
211,050	$ 5.00	March 29, 2012
8,000	$ 5.00	May 17, 2012
40,000	$ 5.28	January 3, 2012
20,000	$ 6.00	June 14, 2012
100,000	$ 6.63	July 1, 2012
100,000	$ 3.58	July 6, 2012
60,000	$ 7.44	August 20, 2012
396,875	$ 2.00	December 18, 2013
1,000,000	$ 5.00	March 24, 2014
215,000	$ 3.53	July 22, 2014
100,000	$ 3.01	August 24, 2014
20,000	$ 3.82	September 25, 2014
985,000	$ 5.45	November 6, 2014
15,000	$ 5.17	December 8, 2014
50,000	$ 5.45	January 12, 2015
90,000	$ 4.07	March 14, 2015
80,000	$ 3.95	May 5, 2015
165,000	$ 3.81	September 9, 2015
40,300	$ 4.12	September 21, 2015
75,000	$ 3.85	October 21, 2013
4,341,225		

As at the date of this report, there are outstanding warrants to purchase 225,000 common shares at a price of $4.16, which expire on April 1, 2011 and outstanding warrants to purchase 1,875,000 common shares at a price of $5.00, which expire on April 1, 2011.

Management's Report on Disclosure controls and procedures
Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2010.

Management's Report on Internal Control over Financial Reporting

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

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Directors and Officers

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

Contact Person

Murray Oliver
Telephone: (604) 687-0888
Facsimile: (604) 687-0885
Email: info@dynastymining.com

Outlook

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

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

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