

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited-prepared by management)**

**MARCH 31, 2010**

**DYNASTY METALS & MINING INC.**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of Dynasty Metals & Mining Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

Vancouver, Canada

May 12, 2010

**DYNASTY METALS & MINING INC.**  
**CONSOLIDATED BALANCE SHEETS**

	March 31 2010 (unaudited)	December 31 2009 (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,436,270	\$ 7,998,940
Receivables	38,314	20,747
Prepaid expenses	209,303	174,800
Inventory (Note 3)	<u>2,618,609</u>	<u>1,311,311</u>
	5,302,496	9,505,798
<b>Advances and deposits</b>	139,361	55,553
<b>Property, plant and equipment</b> (Note 4)	30,346,941	29,710,160
<b>Mine development costs</b> (Note 5)	14,512,362	13,022,320
<b>Mineral properties</b> (Note 6)	<u>19,648,954</u>	<u>18,610,008</u>
	<u>\$ 69,950,114</u>	<u>\$ 70,903,839</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,167,691	\$ 1,076,994
<b>Asset retirement obligation</b> (Note 7)	<u>672,771</u>	<u>658,917</u>
	<u>1,840,462</u>	<u>1,735,911</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)	80,473,364	80,185,812
Contributed surplus (Note 8)	8,579,103	7,374,054
Deficit	<u>(20,942,815)</u>	<u>(18,391,938)</u>
	<u>68,109,652</u>	<u>69,167,928</u>
	<u>\$ 69,950,114</u>	<u>\$ 70,903,839</u>

**Nature and continuance of operations** (Note 1)  
**Subsequent event** (Note 14)

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

**DYNASTY METALS & MINING INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**FOR THE THREE MONTHS ENDED MARCH 31**

	2010 (unaudited)	2009 (unaudited)
<b>EXPENSES</b>		
Amortization and accretion	\$ 96,239	\$ 92,532
Management fees	61,451	66,330
Office and general	461,527	349,649
Professional fees	240,590	127,451
Shareholder communication	49,178	51,101
Stock-based compensation (Note 8)	1,313,800	1,075,550
Transfer agent and filing fees	35,061	37,345
Travel and entertainment	<u>69,392</u>	<u>77,691</u>
<b>Loss before other items</b>	<u>(2,327,238)</u>	<u>(1,877,649)</u>
<b>OTHER ITEMS</b>		
Interest income	6,021	19,474
Foreign exchange gain (loss)	<u>(229,660)</u>	<u>210,288</u>
	<u>(223,639)</u>	<u>229,762</u>
<b>Loss and comprehensive loss for the period</b>	(2,550,877)	(1,647,887)
<b>Deficit, beginning of period</b>	<u>(18,391,938)</u>	<u>(10,080,617)</u>
<b>Deficit, end of period</b>	<u>\$ (20,942,815)</u>	<u>\$ (11,728,504)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.07)</u>	<u>\$ (0.05)</u>
<b>Weighted average number of shares outstanding</b>	<u>38,135,791</u>	<u>34,096,685</u>

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

**DYNASTY METALS & MINING INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31**

	2010 (unaudited)	2009 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (2,550,877)	\$ (1,647,887)
Items not including cash:		
Amortization and accretion	96,239	92,532
Stock-based compensation	1,313,800	1,075,550
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(17,565)	(58,071)
Increase in prepaid expenses	(34,504)	(94,078)
Increase in inventory	(1,203,842)	(382,022)
Increase in accounts payable and accrued liabilities	<u>103,577</u>	<u>41,115</u>
Net cash used in operating activities	<u>(2,293,172)</u>	<u>(972,861)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(1,317,061)	(959,274)
Exploration advances and deposits	(83,809)	(42,757)
Purchase of property, plant and equipment	(870,559)	(3,406,441)
Mine development costs	<u>(1,164,069)</u>	<u>(1,469,939)</u>
Net cash used in investing activities	<u>(3,435,498)</u>	<u>(5,878,411)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock	178,800	10,150,000
Share issue costs	(12,800)	(675,389)
Loan repayment	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>166,000</u>	<u>9,474,611</u>
<b>Increase (decrease) in cash and cash equivalents for the period</b>	<b>(5,562,670)</b>	<b>2,623,339</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>7,998,940</u></b>	<b><u>17,567,381</u></b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,436,270</b>	<b>\$ 20,190,720</b>
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<b>Cash paid during the year for interest</b>	<b>\$ -</b>	<b>\$ -</b>
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<b>Cash paid during the year for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>
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**Supplemental disclosure with respect to cash flows (Note 10)**

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the laws of the Yukon Territory on June 28, 2000. On September 24, 2003, the Company completed a business combination and changed its name from “Vendin One Capital Corp.” to “Dynasty Metals & Mining Inc.” The Company is in the business of acquiring, exploring and developing mineral concessions. All such concessions are currently situated in Ecuador. On April 18<sup>th</sup>, 2008, Ecuador’s Constitutional Assembly passed a Constituent Mandate resolution (the “Mining Mandate”), which provided, among other provisions, for the suspension of mineral exploration activities for 180 days, or until a new Mining Law was approved.

In January 2009, the new Mining Act was published. In November 2009, the regulations and procedures to operate under the new Mining Act were signed by the President of Ecuador and published in the Official Registry, after which the new Mining Act and Regulations (collectively, the “Mining Law”) were enacted. The new Mining Law requires each company to enter into an exploitation contract with the government which will set out the specific terms and conditions of each mining operation, including the royalty payable to the government. There is no assurance that the Company will be able to agree on an exploitation contract and royalty rate that will not adversely affect the Company’s business. In the event that the exploitation contract reached with the government impacts the viability of the Company’s principal projects, it may be necessary, in the future, to re-evaluate the carrying value of the Company’s mineral properties, property, plant and equipment and certain other capital assets and the Company’s ability to exploit these properties.

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

**2. CHANGES IN ACCOUNTING POLICIES**

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.

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 Company has begun assessing the adoption of IFRS for 2011, and is considering the accounting policy changes under IFRS.

**DYNASTY METALS & MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**3. INVENTORY**

	March 31 2010 (unaudited)	December 31 2009 (audited)
Materials and supplies	\$ 1,301,771	\$ 863,577
Finished goods	<u>1,316,838</u>	<u>447,734</u>
	<u>\$ 2,618,609</u>	<u>\$ 1,311,311</u>

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 less estimated royalties, refining and transportation charges. Finished goods inventory is metal available for sale in dory bar form and is valued at the lower of average production cost and net realizable value. The dory bars were produced from material extracted during the development of the portals to access the Company's resource at the Zaruma Gold Project. This material was processed during the testing and commissioning of the Zaruma Gold Project Plant.

**4. PROPERTY, PLANT AND EQUIPMENT**

	March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 302,788	\$ 179,579	\$ 123,209
Exploration equipment	341,476	183,408	158,068
Drill rigs	950,974	342,585	608,389
Vehicles	500,788	228,671	272,117
Land	2,793,319	-	2,793,319
Buildings	615,052	68,968	546,084
Plant under construction	19,426,264	-	19,426,264
Mining equipment	7,619,843	1,200,352	6,419,491
	<u>\$ 32,550,504</u>	<u>\$ 2,203,563</u>	<u>\$ 30,346,941</u>
	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 287,493	\$ 163,378	\$ 124,115
Exploration equipment	387,119	173,627	213,492
Drill rigs	950,974	295,037	655,937
Vehicles	466,180	218,606	247,574
Land	2,767,296	-	2,767,296
Buildings	615,052	61,280	553,772
Plant under construction	18,476,470	-	18,476,470
Mining equipment	7,546,178	874,674	6,671,504
	<u>\$ 31,496,762</u>	<u>\$ 1,786,602</u>	<u>\$ 29,710,160</u>

**4. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

**Plant under construction**

The Company has substantially 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. Upon the commencement of commercial production, such costs will be amortized over the plant's estimated useful life.

**Mining equipment**

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

**Land**

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.

**5. MINE DEVELOPMENT COSTS**

Mine development costs include all direct costs associated with the development of portals to access the Company's resource at its Zaruma Gold Project.

**6. MINERAL PROPERTIES**

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

The Company considers the Zaruma Gold Project to be a development project while the others are considered exploration projects. The following table summarizes mineral property expenditures, by property.

	Dynasty Project	Zaruma Project	Jerusalem Project	Other Projects	Total
<b>Balance, December 31, 2009</b>	<u>\$ 9,342,712</u>	<u>\$ 7,286,356</u>	<u>\$ 1,643,656</u>	<u>\$ 337,284</u>	<u>\$ 18,610,008</u>
<b>Costs</b>					
Camp supplies and field costs	2,825	-	4,352	-	7,177
Geological consulting	16,771	9,989	1,904	-	28,664
Laboratory fees	-	1,802	-	-	1,802
Mineral concession rights	783,898	151,441	5,621	22,031	962,991
Project administration	11,625	10,244	5,636	-	27,505
Travel and related costs	<u>9,932</u>	<u>8</u>	<u>867</u>	<u>-</u>	<u>10,807</u>
Additions for the period	<u>825,051</u>	<u>173,484</u>	<u>18,380</u>	<u>22,031</u>	<u>1,038,946</u>
<b>Balance, March 31, 2010</b>	<u>\$ 10,167,763</u>	<u>\$ 7,459,840</u>	<u>\$ 1,662,036</u>	<u>\$ 359,315</u>	<u>\$ 19,648,954</u>

**DYNASTY METALS & MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**7. ASSET RETIREMENT OBLIGATION**

The Company's environmental permit at the Zaruma Gold Project requires that it reclaim any land it disturbs during the mine and plant construction and operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to March 31, 2010 to be \$672,771 (December 31, 2009 - \$658,917). The present value of the future reclamation obligation assumes an inflation rate of 2.5% and a discount rate of 8.0%, an undiscounted amount to settle the obligation of \$1,323,495 and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

	March 31 2010 (unaudited)	December 31 2009 (audited)
<b>Balance, beginning of period</b>	\$ 658,917	\$ 314,742
Liabilities incurred in the year	-	318,331
Accretion expense	<u>13,854</u>	<u>25,844</u>
<b>Balance, end of period</b>	<u>\$ 672,771</u>	<u>\$ 658,917</u>

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Capital Stock		Contributed Surplus
	Number of Shares	Amount	
Authorized			
Unlimited common shares without par value			
<b>As at December 31, 2009</b>	38,095,758	\$ 80,185,812	\$ 7,374,055
Exercise of warrants	40,000	169,600	-
Exercise of options	6,500	9,200	-
Stock-based compensation	-	-	1,313,800
Option conversion	<u>-</u>	<u>108,752</u>	<u>(108,752)</u>
<b>As at March 31, 2010</b>	<u>38,142,258</u>	<u>\$ 80,473,364</u>	<u>\$ 8,579,103</u>

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

**Stock Options and Warrants**

As at March 31, 2010, the following stock options and warrants were outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	112,900	1.05	September 21, 2010
	370,000	2.10	January 9, 2011
	50,000	3.48	March 15, 2011
	150,000	4.50	February 23, 2012
	286,050	5.00	March 29, 2012
	8,000	5.00	May 17, 2012
	40,000	5.28	January 3, 2012
	100,000	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
	405,875	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
	<u>90,000</u>	4.07	March 14, 2015
	<u>4,257,825</u>		

	Number of Shares	Exercise Price	Expiry Date
<b>Warrants</b>	90,000	4.60	November 3, 2010

**Stock-based Compensation**

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. During the three months ended March 31, 2010 the Company granted 140,000 options to directors, officers, employees and consultants with a fair value of \$417,500 (2009 - \$3,300,000), which is being recognized over the vesting periods of the options. Total stock-based compensation recognized in the Statement of Operations, Comprehensive Loss and Deficit for the three months ended March 31, 2010 was \$1,313,800 (2009 - \$1,075,550).

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the three months ended March 31, 2010 and 2009:

- a) paid or accrued professional fees of \$30,599 (2009 - \$8,640) to a law firm in Ecuador with which a director of the Company is affiliated;
- b) paid or accrued fees of \$5,079 (2009 - 8,217) for professional fees to a director of the Company; and
- c) paid management fees of \$78,069 (2009 - \$93,322) to a company controlled by the President and Chief Executive Officer of the Company of which \$58,552 (2009 - \$69,991) were capitalized and included in either mineral property, mine development or plant construction costs.

Included in accounts payable at March 31, 2010 is \$1,293 (December 31, 2009 - \$4,587) due to a law firm with which a current director is affiliated.

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

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

- a) During the three months ended March 31, 2010, the Company incurred mineral property expenditures of \$5,637, acquired land at a cost of \$81,264, incurred plant construction expenditures of \$240,498, incurred mine development expenditures of \$456,174 and acquired inventory for \$103,455 through accounts payable. In addition, the Company capitalized \$309,867 of amortization on mining equipment to mine development costs.
- b) During the three months ended March 31, 2009, the Company incurred mineral property expenditures of \$9,075, acquired land at a cost of \$100,904, incurred plant construction expenditures of \$179,003, incurred mine development expenditures of \$155,092 and incurred share issuance costs of \$60,000 through accounts payable. In addition, the Company capitalized \$82,414 of amortization on mining equipment to mine development costs, incurred plant construction expenditure of \$321,203 through asset retirement obligations and incurred share issuance costs of \$260,000 relating to the issuance of agent's warrants.
- c) Cash and cash equivalents consisted of cash of \$907,459 (2009 - \$4,121,440) and short-term investments of \$1,528,811 (2009 - \$3,877,550).

**11. CAPITAL DISCLOSURE**

The Company's capital currently consists of common shares, options and warrants. As the Company is in the development stage its principal source of funds is from the issuance of common shares and it is not subject to any externally imposed capital restrictions. The Company's capital management objectives are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to have sufficient capital to be able to meet the Company's property development and exploration plans. These objectives have not changed during the three months ended March 31, 2010.

## **12. FINANCIAL INSTRUMENTS**

### Fair Values

As at March 31, 2010, the carrying values of receivables, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

### 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 significant subsidiaries are located in Ecuador for which the U.S. dollar is considered the functional currency. As such, at March 31, 2010, a significant portion of the Company's cash and cash equivalents were held in U.S. dollars and were therefore subject to fluctuation against the Canadian dollar. Based on the balances as at March 31, 2010, if the U.S. dollar had weakened (strengthened) against the Canadian dollar, with all other variables held constant, by 1%, net loss would have increased (decreased) by approximately \$21,729. 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 U.S. 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.

**DYNASTY METALS & MINING INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010

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**13. SEGMENTED INFORMATION**

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

	March 31 2010 (unaudited)	December 31 2009 (audited)
Capital assets:		
Canada	\$ 4,013	\$ 3,622
Ecuador	<u>64,504,244</u>	<u>61,338,866</u>
	<u>\$ 64,508,257</u>	<u>\$ 61,342,488</u>

**14. SUBSEQUENT EVENT**

On April 1, 2010 the Company closed a private placement of 3,750,000 Units at a price of \$4.00 per Unit for a total \$15,000,000. Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant will be exercisable at a price of \$5.00 until April 1, 2011.