ODIN MINING AND EXPLORATION LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

UNAUDITED – PREPARED BY MANAGEMENT

ODIN MINING AND EXPLORATION LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENED SEPTEMBER 30, 2012

Responsibility for financial statements

The accompanying condensed interim consolidated financial statements for Odin Mining and Exploration Ltd. (the "Company") have been prepared by management in accordance with International Financial Reporting Standards consistently applied. These interim statements have been presented on the accrual basis of accounting. Therefore estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the interim financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented.

Auditor involvement

The Company's auditors have not performed a review of the un-audited interim consolidated financial statements for the nine months period ended September 30, 2012.

(signed) Stephen W.C. Stow
Director

ODIN MINING AND EXPLORTION LTD.
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

(Expressed in U.S. Dollars)

		September 30, 2012		December 31, 2011
ASSETS				
Current				
Cash	**$**	**1,272,885**	$	120,261
Short-term deposits		**-**		1,430,012
Other receivables (Note 5)		**83,570**		38,519
Environmental deposit		**75,000**		75,000
Prepaid expenses		**12,457**		61,949
		1,443,912		1,725,741
Non-current assets				
Property & Equipment (Note 6)		**291,873**		304,565
Exploration and evaluation assets (Note 7)		**2,369,103**		985,063
		2,660,976		1,289,628
TOTAL ASSETS	**$**	**4,104,888**	$	3,015,369
LIABILITIES				
Current				
Trade and other payables	**$**	**144,359**	$	126,203
Derivative liability for warrants (Note 8)		**22,283**		459,167
		166,641		585,370
SHAREHOLDERS' EQUITY				
Common Shares (Note 9)		**14,753,759**		13,415,127
Share-based payment reserve (Note 10)		**298,052**		377,088
Accumulated deficit		**(11,113,565)**		(11,362,216)
Total shareholders' equity		**3,938,246**		2,429,999
TOTAL EQUITY AND LIABILITIES	**$**	**4,104,888**	$	3,015,369

Approved by the Board of Directors:

"*Stephen W.C. Stow*" "*Levi Giesbrecht*"

Stephen W.C. Stow, Director Levi Giesbrecht, Director

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

ODIN MINING AND EXPLORTION LTD.
CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF OPERATIONS AND DEFICIT
For the Nine Months Ended September 30
(Expressed in U.S. Dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011 (Note 17)	**2012**	2011 (Note 17)
Interest and other income (Note 11)	**$ 15,024**	$ 15,277	**$ 42,523**	$ 124,143
Expenses				
Depreciation (Note 6)	**238**	273	**714**	820
Employee costs	**13,294**	20,775	**89,462**	184,289
Other expenses (Notes 11 and 12)	**44,273**	26,559	**239,616**	99,825
Exploration and evaluation expenditures	**-**	-	**-**	362,534
Total expenses	**57,805**	47,607	**329,792**	647,468
Operating Loss	**(42,781)**	(32,330)	**(287,269)**	(523,325)
Fair value adjustment of derivative liabilities	**138,808**	1,894,932	**436,884**	567,215
Total comprehensive income for the period	**96,027**	1,862,602	**149,615**	43,890
Income per share (Note 16)				
Basic and Diluted	**$ (0.00)**	(0.02)	**(0.00)**	(0.00)

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

ODIN MINING AND EXPLORTION LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30
(Expressed in U.S. Dollars)
(Unaudited)

	Number of Shares	Share Capital	Share-based Payment Reserve	Accumulated Deficit	TOTAL
Balance, December 31, 2010	83,583,743	$ 13,325,524	$ 235,688	$ (11,609,985)	1,951,227
Share-based compensation (Note 10c)	-	-	93,700	-	93,700
Comprehensive loss for the period	-	-	-	43,890	43,889
Balance, September 30, 2011	**84,021,243**	**$ 13,325,524**	**$ 329,388**	**$ (11,566,095)**	**$ 2,088,817**
Balance, December 31, 2011	84,021,243	13,415,127	377,088	(11,362,216)	2,429,999
Issuance of shares	13,450,000	1,338,632	-	-	1,338,632
Share-based compensation (Note 10c)	-	-	20,000	-	20,000
Expiry of stock options	-	-	(10,000)	10,000	-
Cancellation of stock options	-	-	(89,036)	89,036	-
Total comprehensive loss for the period	-	-	-	149,615	149,615
Balance, September 30, 2012	**97,471,243**	**$14,753,759**	**$ 298,052**	**$ (11,113,565)**	**$3,938,246**

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

ODIN MINING AND EXPLORTION LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30

(Expressed in U.S. Dollars)

(Unaudited)

	2012	2011 (Note 17)
Cash flows from operating activities		
Loss for the period	**$ 149,615**	$ 43,890
Adjustments for:		
Equity settled share-based compensation (Note 10c)	**6,197**	141,400
Depreciation	**714**	820
Fair value adjustment of derivative liabilities (Note 8)	**(436,884)**	(567,215)
Foreign exchange impact on cash	**(40,816)**	105,389
Impairment of exploration and evaluation assets	**-**	362,534
	(321,174)	86,818
Change in working capital balances:		
Increase in trade and other receivables	**(45,051)**	(14,455)
Decrease in prepaid expenses	**49,492**	(80,062)
Increase in trade and other payables	**9,741**	(5,057)
Net cash outflows from operating activities	**(306,992)**	(12,756)
Cash flow from investing activities		
Mineral property acquisition and expenditures capitalized	**(1,348,666)**	(570,985)
Purchase of equipment	**(1,178)**	-
Withdrawal from (Investing in) short term deposits	**1,430,012**	(2,025,696)
Net cash outflows from investing activities	**80,168**	(2,596,681)
Cash flow from financing activity		
Issuance of share capital	**1,358,049**	89,603
Share issue costs	**(19,417)**	-
Cash inflows from financing activity	**1,338,632**	89,603
Foreign exchange impact on cash	**40,816**	(105,389)
Net increase (decrease) in cash during the period	**1,152,624**	(2,625,223)
Cash and cash equivalents, beginning of period	**120,261**	2,915,456
Cash and cash equivalents, end of period	**$ 1,272,885**	$ 290,233

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

1. CORPORATE INFORMATION

Odin Mining and Exploration Ltd. (the "Company") was incorporated under the Business Corporation Company Act of British Columbia on March 22, 1988. The consolidated financial statements of the Company as at September 30, 2011 comprise the Company and its wholly-owned subsidiaries, Odin Mining del Ecuador SA and Prominas SA, both incorporated in Ecuador. The Company is listed on the TSX-Venture Exchange, having the symbol ODN.V and its primary business is the acquisition of exploration and evaluation of mineral properties in Ecuador.

The address of the Company's registered office is 1500 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9. The address of the Company's principal place of business is 1500 – 1055 West Hastings Street, Vancouver, BC, V6E 2E9.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting.* They are condensed as such they do not include all of the information require to be included in annual financial statements. They should be read in conjunction with the company's International Financial Reporting Standards ("IFRS") transition statements, as at and for the three month period ended March 31, 2011, which were prepared in accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards. In previous years, the Corporation prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles in effect prior to January 1, 2011. Comparative information has been restated from Canadian generally accepted accounting principles to IFRS. The impact of the transition to IFRS on the Corporation's previously reported financial statements is presented in note 16. The policies applied in these interim condensed consolidated financial statements have been consistently applied based on IFRS issued and outstanding as of September 30, 2012. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2012 could result in restatement of these condensed interim consolidated financial statements, including the adjustments recognized on transition to IFRS.

The condensed interim consolidated financial statements of the Company as at September 30, 2012 were authorised for issue in accordance with a resolution of the directors on November 16, 2012.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets.

The consolidated financial statements are presented in United States dollars, which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated. The Company operates in multiple jurisdictions and transacts in multiple currencies. Being an exploration stage company, the Company has no revenues from operations to date and therefore has based the determination of functional currency on expenditures, financial commitments and historical financing, the areas where the majority of the Company's transactions occur. Transactions related to all three of these criteria occur in more than one currency, however the US$ is the dominant currency for each of these criteria and therefore the currency of the primary economic environment to which the Company is the most significantly exposed. As such, management has determined the US$ to be the functional currency of the Company and all significant subsidiaries within the consolidated group.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statement are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed interim consolidated financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the reporting period September 30, 2012.The standards that will be effective in the financial statements for the year ending December 31, 2012 are subject to change and may be affected by additional interpretations.

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2011.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Standards, Amendments and Interpretations Not Yet Effective

The following standards and interpretations, which may affect the Company's financial statements, have been issued but are not yet effective:

IFRS 7 *Financial Instruments: Disclosures* has been amended to introduce enhanced disclosure around any financial instruments which are offset in accordance with IAS 32. These amendments are not expected to have a significant impact on the Company's disclosures in its consolidated financial statements.

IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized costs and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has determined there will be no impact on the financial statements and intends to adopt the standard for the accounting period beginning on January 1, 2013.

Standards, Amendments and Interpretations Not Yet Effective - continued

IFRS 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards with IFRSs or US GAAP. The Company has determined there will be no impact on the financial statements and intends to adopt the standard for the accounting period for the accounting period beginning on January 1, 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, the IFRS Interpretations Committee, sets our principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

IAS 1 *Presentation of Financial Statements* has been amended to require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified. These amendments are not expected to have a significant impact on the Company's disclosures in its consolidated financial statements.

IAS 19 *Employee Benefits* has been amended to provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense. The Company does not believe the adoption of IAS 19 will materially affect its financial performance or its financial position.

IAS 27 *Separate Financial Statements* contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9. This new standard is effective January 1, 2013 with earlier application permitted and will not have a material impact on the Company's financial statements.

IAS 32 *Financial Instruments: Presentation* has been amended to provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The Company does not believe the amendments to IAS 32 will materially affect its financial performance or its financial position.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carry amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are discussed below:

Depreciation and Amortization

Depreciation and amortization amounts have been calculated based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate an assets useful life. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current knowledge and estimates. Significant changes in estimates will result in changes to depreciation and amortization from period to period.

Impairment of Equipment

Equipment is reviewed for impairment events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

Provision for Site Restoration

Provision for site restoration has been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time of the rehabilitation costs is actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

The Company currently has no requirements for site restoration.

Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit (loss) in the period the new information becomes available.

Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Functional Currency

Management has concluded the functional currency of the Company, being the currency of the primary economic environment in which the Company operates, is the United States dollar. In determining the function currency management considered the currency that revenue will primarily be derived in and the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. The United States dollar is the dominant currency.

(Expressed in U.S. Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - Continued

Income Taxes

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 10.

The Company measures the fair value of warrants determined to be financial instruments at the date they are granted. The fair value is calculated and recorded as a derivative liability as discussed above under derivative financial instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in notes 9 and 10.

5. TRADE AND OTHER RECEIVABLES

	September 30, 2012	December 31, 2011
HST recoverable	**$ 3,662**	$ 8,220
Expense advances to employees	**79,908**	30,299
	$ 83,570	$ 38,519

6. PROPERTY AND EQUIPMENT

	Land	Computers and Equipment	Automotive	Total
Cost				
Balance at December31, 2010	$ 250,000	$ 36,573	$ 50,521	$ 337,094
Additions	-	3,451	39,991	43,442
Balance at December 31, 2011	250,000	40,024	90,512	380,536
Additions	-	1,178	-	1,178
Balance at September 30, 2012	**$ 250,000**	**$ 41,202**	**$ 90,512**	**$ 381,714**
Depreciation and impairment losses				
Balance at December 31, 2010	$ -	$ 26,615	$ 38,588	$ 65,203
Depreciation for the year	-	5,795	4,970	10,765
Balance at December 31, 2011	-	32,413	43,558	75,971
Depreciation for the period	-	3,541	10,329	13,870
Balance at September 30, 2012	**$ -**	**$ 35,954**	**$ 53,887**	**$ 89,841**
Carrying amounts				
At December 3, 2010	$ 250,000	$ 9,958	$ 11,933	$ 274,891
At December 31, 2011	$ 250,000	$ 7,611	$ 46,954	$ 304,565
At September 30, 2012	**$ 250,000**	**$ 5,248**	**$ 36,624**	**$ 291,873**

(Expressed in U.S. Dollars)

7. EXPLORATION AND EVALUATION ASSETS

The Company has entered into a number of agreements to acquire mining concessions or options to acquire mining concessions in Ecuador, as detailed below. To date, the Company has expended $3,959,109 on these mining concessions, for option payments, acquisition costs, property maintenance costs, environmental studies and preliminary geological work.

On April 18, 2008 the government of Ecuador passed a Mining Mandate to draft and implement a new mining law. This Mining Mandate superseded the existing mining law and international investment agreements under which mineral concessions were granted and investment were made. In addition, the government cancelled certain mining concessions due to non-payment of patent taxes and indicated potential cancellation of certain mining concessions for late payment of patent taxes, including certain of the Company's concessions.

In January 2009, a new Mining Law for Ecuador was published in the State's Official Register, thereby becoming law. Effective with the passing of the law the Mandate is no longer valid. Uncertainties in the Law were clarified with the enactment of the Regulations in November 2009, cancelling the Mining Mandate and reinstating mining activities.

Despite the enactment of the new Mining Law, in January 2009, the lack of accompanying Regulations and a formal notification to the Company of the termination of the suspension of the Company's mining activities continued the uncertainty regarding the mining industry in Ecuador. As a result, at December 31, 2008, 2009 and 2010 the Company wrote-off its investment in Ecuador mineral properties. The Company continues to evaluate the value of its investment in its Ecuador mineral properties at the end of each quarter.

In September 2011 the Company received drilling and other permits required to commence further exploration of its properties. From that date the Company has capitalized all expenditures directly related to the exploration of its mineral properties.

The Company controls 12 separate mineral titles located near Machala South West Ecuador, known as the "Cangrejos Concessions". The mineral rights payments related to those concessions in 2011 amounted to $74,527 (2010 - $124,093).

In addition to the above mineral titles, on September 20, 2007, the Company entered into an option agreement to acquire a mining right in the contiguous properties known as the "Castro Concessions". The agreement, as amended December 23, 2009 and July 13, 2012, calls for payments totalling $2,400,000 to complete the acquisition of the mineral rights, payable as follows: December 31, 2007 -$80,000 (paid); December 20, 2009 - $80,000 (paid); September 20, 2011 - $180,000 (paid); later of June 30, 2012 and completion of fund raising approved by the TSX-V - $100,000 (paid); July 30, 2013 - $100,000; July 30, 2014 - $460,000; and July 30, 2015 - $1,400,000.

The Company has purchased various small local farm lands (Note 3, Land) in the area of its Cangrejos properties of strategic value representing important surface rights over which it has mineral rights and access.

2012 Expenditures

Balance at December 31, 2011	**$ 985,063**
Expenditures capitalized in 2011	
Mineral rights	183,859
Legal fees	21,795
Assays	94,061
Camp	120,166
Camp access and improvements	25,766
Drilling	386,728
Environmental	7,392
Exploration administration	55,862
Geological consulting	96,411
Geological staff	370,524
Transportation	21,476
Balance at September 30, 2012	**$ 2,369,103**

(Expressed in U.S. Dollars)

7. EXPLORATION AND EVALUATION ASSETS - Continued

2011 Expenditures

Balance at December 31, 2010	**$**	**1**
Expenditures capitalized in 2011		
Mineral rights		283,983
Legal fees		21,178
Assays		59,257
Camp		88,842
Camp access and improvements		42,152
Drilling		332,656
Environmental		26,710
Exploration administration		44,524
Geological consulting		198,831
Geological staff		268,502
Transportation		15,196
2011 expenditures capitalized		1,361,831
Allowance for impairment		(376,768)
Balance at September 30, 2011	**$**	**985,063**

8. DERIVATIVE LIABILITY FOR WARRANTS

Derivative liabilities, consisting of the equity instruments such as options to non-employees and common share warrants with an exercise price in a different currency than the Company's functional currency, are accounted for as separate liabilities measured at their respective fair values as follows:

Balance, December 31, 2010	$	1,488,673
Less: Fair value adjustment		(1,029,506)
Balance, December 31, 2011		459,167
Less: Fair value adjustment		(436,884)
Balance, September 30, 2012	$	22,283

The fair value of derivative warrants is calculated using the Black-Scholes option pricing model.

Warrants expiring December 24, 2012

During 2010 the Company issued 14,056,875 share purchase warrants pursuant to an early exercise incentive program (Note 9b). The warrants entitle the holder to acquire one common share at a price of C$0.30 per share to December 24, 2012. The estimated fair value of these incentive warrants at the grant date was $1,676,001 using the following assumptions: Risk-free interest rate – 1.69%; Expected life – 2 years; Expected volatility – 131%; and Expected dividends - $NIL. The fair value was initially recorded as a share issue cost and derivative liability.

At December 31, 2010 the fair value of the warrants was revalued and estimated to be $1,264,417 using the following assumptions: Risk-free interest rate – 1.57%; Expected life – 1.6 years; Expected volatility – 134%; and Expected dividends - $NIL.

At December 31, 2011 the fair value of the warrants was revalued and was estimated to be $459,167 using the following assumptions: Risk-free interest rate – 1.02%; Expected life – 0.9 years; Expected volatility – 125%; and Expected dividends - $NIL.

At September 30, 2012 the fair value of the warrants was revalued and was estimated to be $22,283 using the following assumptions: Risk-free interest rate – 1.12%; Expected life – 0.25 years; Expected volatility – 129%; and Expected dividends - $NIL..

9. SHARE CAPITAL AND RESERVES

a) Authorized

The Company's authorized capital consists of 200,000,000 common shares without par value.

The holders of common shares are entitled to receive dividends, which may be declared from time to time, and are entitle to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

(Expressed in U.S. Dollars)

9. SHARE CAPITAL AND RESERVES - Continued

b) Issued

Period ended September 30, 2012

(i) On August 27, 2012 the Company issued 13,450,000 common shares pursuant to a non-brokered private placement. The Company incurred share issue costs in the amount of $19,420 for legal and filing fees in relation to this private placement.

Year ended December 31, 2011

(i) On June 21, 2011 the Company issued 437,500 common shares on the exercise of warrants for proceeds of $89,603.

c) Share Purchase Warrants

A summary of the Company's outstanding share purchase warrants at September 30, 2011 and December 31, 2010 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted Average Exercise price
Warrants outstanding, December 31, 2010	18,750,000	C$0.27
Warrants exercised	(437,500)	C$0.20
Warrants expired	(14,225,625)	C$0.20
Warrants outstanding, December 31, 2011 and September 30, 2012	14,056,875	C$0.30

The following table summarizes information relating to share purchase warrants outstanding and exercisable at September 30, 2012:

Exercise Price per share	Number Outstanding	Expiry	Weighted Average Remaining Contractual Life (Years)
C$0.30	14,056,875	December 24, 2012	0.2

d) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's balance sheet include 'Warrant Reserve', 'Share-based Payment Reserve', and 'Accumulated Deficit'.

- 'Warrant Reserve' is used to recognize the value of share warrants prior to exercise.
- 'Share-based Payment Reserve' is used to recognize the value of stock option grants prior to exercise.
- 'Accumulated Deficit' is used to record the Company's change in deficit from earnings from period to period.

10. SHARE-BASED PAYMENTS

a) Option Plan Details

The Company has established an Incentive Share Option Plan for directors, officers, employees and consultants, enabling them to purchase common shares. The total number of options outstanding at any time cannot exceed 10% of the total number of outstanding common shares. The number of options granted to any individual shall not exceed 5% of the issued and outstanding shares of the Company from time to time. The number of options granted to consultants or investor relations consultants shall not exceed 2% of the issued and outstanding shares of the Company from time to time. The number of options granted to insiders shall not exceed 10% of the issued and outstanding shares of the Company from time to time. Each option granted under the plan is for a maximum term of five years. The exercise price of the options granted under the plan is established by the Board of Directors of the Company and cannot be less than the Discounted Market Price as calculated and defined in accordance with the policies of the TSX Venture Exchange. The options vest 25% on the date of grant and 25% every three months thereafter, except for options issued to employees or consultants conducting investor relations vest in stages over 12 months with no more than one-quarter of the Options vesting in any three month period.

(Expressed in U.S. Dollars)

10. SHARE-BASED PAYMENTS - Continued

a) Option Plan Details - continued

The following table summarizes stock option activity for the periods ending September 30, 2012 and December 31, 2011:

	Number	Weighted Average Exercise Price
Balance, December 31, 2010 and December 31, 2011	4,815,000	C$0.25
Stock options expired	(25,000)	C$0.30
Stock options cancelled	(925,000)	C$0.25
Stock options issued	145,000	C$0.19
Balance September 30, 2012	4,010,000	C$0.25

b) Fair value of Options Issued

The following table summarizes information relating to stock options outstanding and exercisable at September 30, 2012:

Exercise Price per share	Number Outstanding	Expiry	Weighted Average Remaining Contractual Life (Years)	Number Vested - exercisable	Fair Value of Options
C$0.25	650,000	October 29, 2012	0.08	650,000	$ 5,000
C$0.20	15,000	March 14, 2013	0.45	15,000	2,288
C$0.25	3,200,000	October 26, 2015	3.07	3,200,000	270,763
C$0.17	40,000	October 1, 2016	4.00	40,000	8,000
C$0.20	105,000	December 20, 2016	4.22	105,000	12,000
	4,010,000		2.65	4,010,000	$ 387,088

c) Expenses Arising from Share-based Payment Transactions

Based on the estimated fair value of options at their grant dates and graded vesting, during of the period ended September 30, 2012 the Company recorded stock-based compensation expense totaling $20,001 ($14,287 as geological expenditures and $5,714 as general and administration) in the statement of operations. and during the period ended September 30, 2011 the Company recorded stock-based compensation expense totaling $255,049 ($239,402 as director's fees, $9,389 as wages and benefits and $6,258 as general and administration) in the statement of operations.

11. OTHER INCOME AND EXPENSES

	September 30, 2012	September 30, 2011
Interest and other income include:		
Interest income	$ 2,357	$ 24,902
Foreign exchange gain	40,166	99,241
	$ 42,523	$ 124,143
Other expenses include:		
General and administration	**$ 47,536**	$ 26,022
Insurance	**14,643**	9,674
Management fees	**73,348**	-
Professional fees	**104,089**	64,129
	$ 239,616	$ 99,825

(Expressed in U.S. Dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes directors (executive and non-executive) and senior management (CEO and acting CFO). The compensation paid or payable to key management for employee services is disclosed in the table below.

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following general and administrative costs with related parties during 2012 and 2011:

	Periods ended September 30		Net Balance receivable (payable) at	
	2012	2011	September 30, 2012	December 31, 2011
Short-term employee benefits				
Executive salaries and remuneration (1)	$ 73,348	$ -	$ -	$ -
Directors' fees (2)	48,586	-	-	48,586
	121,934	-	-	48,586
Share-based payments	-	231,987	-	-
	$ 121,934	$ 231,987	$ -	$ 48,586

(1) Management fees were paid $33,863 to a Company 100% owned by the President and a director of the Company and $39,485 to a director of the Company. For the period commencing July 1, 2012,the monthly remuneration payable to the President was eliminated and payable to the other director was reduced to $2,000 per month.

(2) Directors' fees are paid in advance. Therefore, at December 31 there are prepaid directors' fees amounts that relate to the period January 1 to June 30 of the following year. No directors' fees have been paid or are payable regarding the period subsequent to June 30, 2012.

Transactions with related parties conducted in the normal course of operations are recorded at the exchange value, being the price agreed to between the parties.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair Value of Financial Instruments

The Company's financial instruments include cash and equivalents, short-term deposits, other receivables, environmental deposit, trade and other payables and derivatives (comprised of share purchase warrants).

The fair values of cash and equivalents, short-term deposits, other receivables, trade and other payables approximate carrying value because of the short term nature and high liquidity of these instruments.

Fair value of environmental deposit approximates their carrying value based on current interest rates and high liquidity.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at September 30, 2012 and December 31, 2011, the fair value hierarchy of financial instruments measured at fair value is as follows:

	September 30, 2012		December 31, 2011	
	Level 1	Level 2	Level 1	Level 2
Financial Assets				
Short-term deposits	$ -	$ -	$ 1,430,012	$ -
Other receivables	79,908	-	30,299	-
Environmental deposit	-	75,000	-	75,000
	$ 79,908	$ 75,000	$ 1,460,311	$ 75,000

	September 30, 2012		December 31, 2011	
	Level 1	Level 2	Level 1	Level 2
Financial Liabilities				
Derivative liability for warrants	$ -	$ 22,283	$ -	$ 459,167

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Continued

a) Fair Value of Financial Instruments - continued

The Company uses valuation models to determine the fair value of its derivative instruments. The inputs to these models are primarily external observable inputs such as quoted price for the Company's shares and risk free interest rate measured as the price for Government of Canada bonds.

The Company does not have Level 3 inputs as described in the Company's accounting policies.

The Company uses valuation models to determine the fair value of its derivative instruments. The inputs to these models are primarily external observable inputs such as quoted price for the Company's shares and risk free interest rate measured as the price for Government of Canada bonds.

The Company does not have Level 3 inputs as described in the Company's accounting policies.

b) Financial Instrument Risk Exposure and Risk Management

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is present throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies, and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receive monthly reports from the Company's Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

i) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk as follows:

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the US dollar and the Canadian dollar or other foreign currencies will affect the Company's operations and financial results. The Company could have exposure to foreign currency risk. The Company's functional currency is US dollars but raises some of its capital in Canadian dollars. The Company has not hedged its exposure to currency fluctuations.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash, cash equivalents and short-term deposits held with Canadian financial institutions. The Company consider this risk to be immaterial.

Commodity Price risk

The Company's ability to raise capital to fund exploration or development activities may be subject to risks associated with fluctuations in the market prices of gold and silver. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(Expressed in U.S. Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Continued

b) Financial Instrument Risk Exposure and Risk Management - continued

General Objectives, Policies and Processes - continued

ii) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and equivalents, short-term deposits, other receivables and environmental deposit. Cash and equivalents and short-term deposits are maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at September 30, 2012 and December 31, 2011 relating to cash and equivalents and short-term deposits of $1,272,885 (December 31, 2011 - $120,261) and $Nil (December 31, 2011 - $1,430,012) respectively. All cash, cash equivalents and short-term deposits are held at HSBC Canada. The Company considers this risk to be minimal for all cash and cash equivalent assets.

iii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that is will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that is has sufficient cash on demand to meet expected operational expenses for a period of 180 days. To achieve this objective, the Company prepares annual operating and capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on explorations projects to further manage expenditures.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable. The Company has sufficient cash and equivalents and short-term deposits on hand to meet its current obligations, due within the next 12 months, together with financial commitments for the next 12 months.

14. CAPITAL MANAGEMENT

The Company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business.

The Company is not exposed to any externally imposed capital requirements.

15. SEGMENTAL REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities in Ecuador.

16. LOSS PER SHARE

Income per Share

Basic loss per share amounts are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period.

	September 30, 2012	September 30, 2011
Income attributable to ordinary shareholders	**$ 149,615**	$ 43,890
Weighted average number of common shares	**85,690,221**	83,745,602
Basic income (loss) per share	**$ 0.00**	$ ($0.00)
Fully diluted number of common shares	**104,682,096**	102,617,477
Fully diluted income (loss) per share	**$ 0.00**	$ ($0.00)

16. LOSS PER SHARE - Continued

Weighted Average Number of Common Shares

	September 30, 2012	September 30, 2011
Issued common shares, beginning of the period	**84,021,243**	83,583,743
Effect of shares issued	**1,668,978**	161,859
Weighted average issued common shares	**85,690,221**	83,745,602
Outstanding vested stock options	**4,935,000**	4,815,000
Outstanding share purchase warrants	**14,056,875**	14,056,875
Weighted average issued common shares	**104,682,096**	102,617,477

17. PRIOR PERIOD BALANCES

The statement of comprehensive income (loss) comparative figures have been amended to reflect December 31, 2011 adjustments made as follows:

	Note	As Reported in September 30, 2011 Financial Statements	Adjustments	As Reported in these Financial Statements
Other income		$ 124,143	$ -	$ 124,143
Expenses				
Depreciation		820	-	820
Employee costs	17(a)	295,149	(110,860)	184,289
Other expenses	17(a)	102,615	(2,790)	99,825
Exploration expenditures		362,534	-	362,534
		761,118	(113,650)	647,468
Loss before other item		(636,975)	113,650	(523,325)
Fair value adjustment of derivative liabilities	17(b)	-	(271,110)	567,215
	17(b)		495,366	
	17(c)		(1,056,607)	
	17(c)		1,074,093	
	17(c)		325,473	
Total comprehensive loss for the year		**$ (636,975)**	**680,865**	**43,890**

a) Amend the calculation of fair value of options granted to directors, employees and consultants on October 26, 2010 and to recalculate the income inclusion rate as calculated for Canadian GAAP (expense recorded using straight-line vesting) to IFRS (expense recorded using graded vesting)

b) Recording of change in derivative liability related to share purchase warrants - At December 31, 2011 437,500 non-brokers warrants were outstanding and exercisable at an exercise price of CAD$0.20. As the exercise price of the warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the conversion option is considered a derivative as the Company will receive a variable amount of cash when the warrants are exercised. Accordingly, the warrants are recorded as a financial liability and stated at fair value at the end of each period. Under Canadian GAAP, these instruments were considered equity instruments and changes in fair value subsequent to initial recognition were not recognized. This resulted in a $271,110 increase to derivative liability as at March 31, 2011 and a reduction of derivative liability as at June 30, 2011 as the warrants expired during the period ended June 30, 2011.

c) Recording of change in derivative liability related to share purchase warrants - At December 31, 2011 14,056,875 non-brokers warrants were outstanding and exercisable at an exercise price of CAD$0.30. As the exercise price of the warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the conversion option is considered a derivative as the Company will receive a variable amount of cash when the warrants are exercised. Accordingly, the warrants are recorded as a financial liability and stated at fair value at the end of each period. Under Canadian GAAP, these instruments were considered equity instruments and changes in fair value subsequent to initial recognition were not recognized. This resulted in a $1,056,607 increase to derivative liability as at March 31, 2011, a $1,074,093 decrease to derivative liability as at June 30, 2011 and a 325,473 decrease to derivative liability as at September 30, 2011.