ELY GOLD & MINERALS INC.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2011

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ELY GOLD & MINERALS INC.

We have audited the accompanying consolidated financial statements of Ely Gold & Minerals Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ely Gold & Minerals Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $1,840,780 during the year ended December 31, 2011. This condition, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 30, 2012

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ELY GOLD & MINERALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	December 31, 2011	December 31, 2010 (Note 20)	January 1, 2010 (Note 20)
ASSETS (Note 12)			
Current			
Cash and cash equivalents	$ 2,256,104	$ 196,538	$ 243,050
Marketable securities (Note 6)	78,676	16,705	12,464
Receivables (Note 7)	19,172	28,159	3,670
Prepaid expenses	25,578	5,493	41,771
	2,379,530	246,895	300,955
Non-current assets			
Reclamation bond	67,841	-	-
Equipment (Note 8)	-	1,165	2,589
Mineral properties (Note 9)	10,304,749	4,234,017	8,683,324
	$ 12,752,120	$ 4,482,077	$ 8,986,868
LIABILITIES			
Current			
Accounts payable and accrued liabilities (Notes 11 and 14)	$ 1,349,208	$ 901,236	$ 137,237
Current portion of other liabilities (Note 12)	762,750	497,300	261,650
	2,111,958	1,398,536	398,887
Non-current liabilities			
Loan payable (Note 9)	530,599	-	-
Other liabilities (Note 12)	1,958,744	2,389,776	2,736,167
	4,601,301	3,788,312	3,135,054
EQUITY			
Share capital (Note 13)	22,759,619	19,735,394	18,561,078
Share-based payment reserve (Note 13)	2,514,928	2,118,058	1,459,236
Investment revaluation reserve	(138,518)	(64,770)	(68,480)
Subscriptions receivable	-	(15,000)	-
Foreign currency translation reserve	87,891	(70,650)	-
Deficit	(24,385,665)	(22,552,094)	(14,100,020)
Equity attributable to owners of the Company	838,255	(849,062)	5,851,814
Non-controlling interest (Note 10)	7,312,564	1,542,827	-
	8,150,819	693,765	5,851,814
	$ 12,752,120	$ 4,482,077	$ 8,986,868

Approved by the Board of Directors:

"Ronald Husband" Director *"Stephen Kenwood"* Director
Ronald Husband Stephen Kenwood

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

ELY GOLD & MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

Year Ended December 31	2011	2010
		(Note 20)
EXPENSES		
Consulting fees	$ 776,001	$ 947,290
Depreciation	1,165	1,424
Insurance	16,155	16,155
Office and administration	43,092	28,145
Professional fees	252,004	207,848
Rent	20,925	31,200
Share-based payment (Note 13(b))	491,019	753,783
Telecommunications	5,416	3,756
Transfer agent and filing fees	37,644	42,584
Travel and promotion	68,121	41,651
	(1,711,542)	(2,073,836)
OTHER INCOME (EXPENSES)		
Interest expense	(10,752)	-
Write-down of mineral properties	(39,560)	(7,735,464)
(Loss) gain on foreign exchange	(78,926)	140,082
	(129,238)	(7,595,382)
Loss for the year	$ (1,840,780)	$ (9,669,218)
Loss for the year attributable to:		
Non-controlling interest (Note 10)	$ (7,209)	$ (1,989)
Common shareholders	(1,833,571)	(9,667,229)
	(1,840,780)	$ (9,669,218)
Basic and diluted loss per common share	$ (0.03)	$ (0.23)
Weighted average number of common shares outstanding	55,995,831	42,732,985
Comprehensive loss		
Loss for the year	$ (1,840,780)	$ (9,669,218)
Change in fair value of marketable securities, net of taxes	(73,748)	3,710
Foreign currency translation reserve	158,541	(70,650)
Comprehensive loss for the year	$ (1,755,987)	$ (9,736,158)

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

ELY GOLD & MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

Year Ended December 31	2011	2010
		(Note 20)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (1,840,780)	$ (9,669,218)
Items not affecting cash:		
Depreciation	1,165	1,424
Share-based payment	491,019	753,783
Write-down of mineral properties	39,560	7,735,464
Changes in non-cash working capital items:		
Receivables	8,987	(24,489)
Prepaid expenses	(20,085)	36,278
Accounts payable and accrued liabilities	910,669	754,205
Net cash used in operating activities	(409,465)	(412,553)
CASH FLOWS FROM INVESTING ACTIVITIES		
Reclamation bond	(67,841)	-
Mineral properties, net of recoveries	(6,019,568)	(2,211,544)
Net cash used in investing activities	(6,087,409)	(2,211,544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of costs	2,945,076	1,143,510
Repayment of other liabilities	(165,582)	(110,741)
Capital contributions by non-controlling interest	5,776,946	1,544,816
Net cash provided by financing activities	8,556,440	2,577,586
Change in cash for the year	2,059,566	(46,512)
Cash and cash equivalents, beginning of year	196,538	243,050
Cash and cash equivalents, end of year	$ 2,256,104	$ 196,538

Supplemental disclosure with respect to cash flows (Note 15)

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

ELY GOLD & MINERALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of shares	Share capital	Share-based payment reserve	Subscriptions receivable	Investment revaluation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total
Balance, January1, 2010 (Note 20)	39,169,912	$ 18,561,078	$ 1,459,236	$ -	$ (68,480)	$ -	$ (14,100,020)	$ -	$ 5,851,814
Shares issued during the year									
Private placements, net of issuance costs	7,626,333	1,132,314	-	-	-	-	-	-	1,132,314
Exercise of warrants	22,000	5,500	-	-	-	-	-	-	5,500
Exercise of options	75,000	36,502	(21,502)	-	-	-	-	-	15,000
Share-based payments	-	-	753,783	-	-	-	-	-	753,783
Fair value of warrants issued	-	-	1,141,696	-	-	-	-	-	1,141,696
Forfeiture/expiry of options and warrants	-	-	(1,215,155)	-	-	-	1,215,155	-	-
Change in fair value of marketable securities, net of deferred income taxes	-	-	-	-	3,710	-	-	-	3,710
Subscriptions receivable	-	-	-	(15,000)	-	-	-	-	(15,000)
Effects of foreign currency translation	-	-	-	-	-	(70,650)	-	(7,850)	(78,500)
Non-controlling interest capital contributions	-	-	-	-	-	-	-	1,552,666	1,552,666
Net loss for the year	-	-	-	-	-	-	(9,667,229)	(1,989)	(9,669,218)
Balance, December 31, 2010 (Note 20)	46,893,245	19,735,394	2,118,058	(15,000)	(64,770)	(70,650)	(22,552,094)	1,542,827	693,765
Shares issued during the year									
Private placements, net of issuance costs	10,256,000	2,383,633	31,192	-	-	-	-	-	2,414,825
Exercise of warrants	2,061,000	640,592	(125,341)	-	-	-	-	-	515,251
Share-based payments	-	-	491,019	-	-			-	491,019
Subscriptions receivable	-	-	-	15,000	-	-	-	-	15,000
Change in fair value of marketable securities, net of deferred income taxes	-	-	-	-	(73,748)	-	-	-	(73,748)
Effects of foreign currency translation	-	-	-	-	-	158,541	-	17,574	176,115
Non-controlling interest capital contributions								5,759,372	5,759,372
Net loss for the year	-	-	-	-	-	-	(1,833,571)	(7,209)	(1,840,780)
Balance, December 31, 2011	59,210,245	$ 22,759,619	$ 2,514,928	$ -	$ (138,518)	$ 87,891	$ (24,385,665)	$ 7,312,564	$ 8,150,819

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Ely Gold & Minerals Inc. (the "Company" or "Ely") is incorporated under the *Business Corporations Act*, Alberta on May 10, 1996, and since 2004 its principal business activity has been the acquisition, exploration and development of mineral properties. The Company is listed on the TSX Venture Exchange ("TSX-V"), having the symbol ELY.

The Company's principal and registered office is Suite 680 – 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2.

On August 26, 2010, the Company signed a Letter of Intent ("LOI") with Solitario Exploration & Royalty Corp. ("Solitario") to make certain equity investments into Ely and to collaborate the development of Ely's Mount Hamilton and Monte Cristo properties. On December 22, 2010, the Company entered into a Limited Liability Company Operating Agreement with Solitario (the "Operating Agreement"), which resulted in the formation of a separate entity, Mt. Hamilton LLC (a Colorado limited liability company) ("MH-LLC"), whereby the Company holds a 90% interest and the remaining 10% is held by Solitario (see Notes 10 and 19(c)).

The Company reported a net loss of $1,840,780 (2010 – $9,669,218) for the year ended December 31, 2011, at December 31, 2011 has working capital of $267,572 (2010 - working capital deficit of $1,151,641), an accumulated deficit of $24,385,665 (2010 - $22,552,094), limited resources and no source of operating cash flow. The Company's current working capital is not sufficient to meet its financial obligations and administrative overhead costs in 2012.

The recovery of the amounts comprising mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development, and upon future profitable production.

These consolidated financial statements have been prepared by management on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses. A number of alternatives including, but not limited to, selling an interest in one or more of its properties or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the prior annual financial statements prepared under Canadian generally accepted accounting principles ("GAAP"). The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1 *First Time Adoption of International Financial Reporting Standards*. The impact of the transition from GAAP to IFRS is explained in Note 20.

These consolidated financial statements were approved by the Company's Board of Directors on April 30, 2012.

2. BASIS OF PREPARATION (cont'd…)

Basis of consolidation and presentation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars, the Company's functional currency, unless otherwise specified.

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries, DHI Minerals Ltd. ("DHI") (a British Columbia corporation), DHI Mineral (US) Ltd. ("DHI US") (a Nevada corporation), Voyageur Gold Inc. ("Voyageur") (a Canadian corporation), and its 90% owned subsidiary, MH-LLC, from December 22, 2010 (Note 10). All significant intercompany transactions and balances have been eliminated.

Non-controlling interests in the net assets of MH-LLC are identified separately from the Company's equity therein. The interest of non-controlling shareholders is initially measured at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the acquisition.

The results of the subsidiary acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of the subsidiary to bring the accounting policies used in line with those used by the Company.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of receivables; balance of accrued liabilities; valuation and depreciation of equipment and recoverability of mining interests; valuation of share-based payments; recognition of deferred income tax amounts; and provision for restoration, rehabilitation and environmental costs.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign exchange

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated at the period-end exchange rates. Non-monetary items measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Foreign exchange (cont'd...)

The functional currency of the Company, DHI and DHI US is the Canadian dollar. The functional currency of MH-LLC is the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in International Accounting Standard ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates*.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation. Items in the consolidated statements of operations are translated using the weighted average exchange rates that reasonably approximate the exchange rate at the transaction date. Items in the consolidated statements of financial position are translated at the closing spot exchange rate. Exchange differences on the translation of the net assets of entities with functional currencies other than the Canadian dollar are recognized in a separate component of equity through other comprehensive income.

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is recognized in profit or loss.

Cash equivalents

Cash equivalents include short-term liquid investments that are cashable or readily convertible into a known amount of cash and which are subject to insignificant risk of changes in value.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss ("FVTPL") - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

Marketable securities

Marketable securities are designated as available-for-sale and recorded at fair value. Fair values are determined by reference to quoted market prices at the statement of financial position date. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income until investments are disposed of or when there is objective evidence of an impairment in value. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance.

At each statement of financial position date, management assesses for any objective evidence of an impairment in value of the investments and records such impairments in profit or loss for the period. If an impairment of an investment in a marketable equity security has been recorded in profit or loss, it cannot be reversed in future periods.

Mineral properties – exploration and evaluation expenditures

Pre-exploration costs are expenses as incurred.

Once the legal right to explore a property has been acquired, costs directly related to the exploration and evaluation of mineral properties are capitalized, in addition to the acquisition costs, including appropriate borrowing costs. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expense in the period in which they occur.

When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units-of-production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Mineral properties are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at the following annual rates:

Computer equipment	45% to 55%

Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provision for environmental rehabilitation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

Unit offering

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated to common shares using the market price on the date the common shares are priced and the residual, if any, is allocated to warrants.

Share-based payments

The Company grants stock options to directors, officers, employees and consultants. Share-based payments to employees are measured on the grant date at the fair value of the equity instruments issued, using the Black-Scholes option pricing model and are accrued and charged either to operations or mineral property interests, over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payment reserve. Consideration paid for the shares on the exercise of stock options or warrants is credited to share capital and the applicable amounts of share-based payment reserve are transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payment reserve. For options that expire or are forfeited after vesting, the recorded value is transferred from the share-based payment reserve to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4. FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents as FVTPL; marketable securities, as available-for-sale; and accounts payable and accrued liabilities and other liabilities, as other financial liabilities.

The carrying values of accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of marketable securities has been based on market prices. The carrying value of other liabilities approximates fair value as the instruments are subject to market rates of interest.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Fair value

The Company's measurement of fair value of marketable securities as at December 31, 2011, December 31, 2010 and January 1, 2010 is in accordance with the level 1 fair value hierarchy.

(b) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of cash and cash equivalents, by placing its cash balances at a major Canadian financial institution.

(Expressed in Canadian Dollars)

4. FINANCIAL INSTRUMENTS (cont'd…)

(b) Credit risk (cont'd…)

Concentration of credit risk exists with respect to the Company's cash, as all amounts are held at a single Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$ 2,256,104	$ 196,538	$ 243,050

During the year ended December 31, 2011, the Company acquired two guaranteed investment certificates for $1,324,000, earning interest at prime less 1.8%, maturing in August 2012 and cashable at any time.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2011, the Company has cash of $2,256,104 (December 31, 2010 - $196,538; January 1, 2010 - $243,050), current liabilities of $2,111,958 (December 31, 2010 - $1,398,536; January 1, 2010 - $398,887) and working capital of $267,572 (December 31, 2010 – working capital deficit of $1,151,641; January 1, 2010 - $97,932). The Company requires additional financing to meet its commitments and administrative overhead costs, and continue to fund its commitments under the Operating Agreement (Note 10).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2011:

Due Date	Accounts Payable and Accrued Liabilities	Other Liabilities (Note 12)
0 – 90 days	$ 1,349,208	$ -
90 – 365 days	$ -	US$ 750,000
More than 1 year	$ -	US$ 2,500,000

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2010:

Due Date	Accounts Payable and Accrued Liabilities	Other Liabilities (Note 12)
0 – 90 days	$ 901,236	$ -
90 – 365 days	$ -	US$ 500,000
More than 1 year	$ -	US$ 3,250,000

4. FINANCIAL INSTRUMENTS (cont'd…)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Fluctuations in the interest rates impact the value of cash equivalents. As at December 31, 2011, the impact of interest rates on the Company is not deemed significant. The Company's other liabilities are not exposed to interest rate risk, as they are carried at amortized cost.

(ii) Foreign currency risk

The Company incurs expenditures in Canada and the US and has a loan payable in US dollars. Foreign currency risk arises because the amount of the US dollar cash, intercompany and payables will vary in Canadian dollar terms due to changes in exchange rates.

As at December 31, 2011, the Company has not hedged its exposure to currency fluctuations.

At December 31, 2011 and December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		December 31, 2011		December 31, 2010
Cash	US$	84	US$	13,875
Marketable securities		2,631		3,310
Other financial liabilities (1)		(2,984,244)		(2,880,298)
Total	US$	(2,981,529)	US$	(2,863,113)

(1) Includes accounts payable and amounts payable to Augusta Resources Ltd.

Based on the above net exposures as at December 31, 2011, a 10% change in the Canadian/US exchange rate will impact the Company's earnings by approximately $296,719.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk on its marketable securities.

(Expressed in Canadian Dollars)

5. CAPITAL MANAGEMENT

The Company is an exploration stage company and this involves a high degree of risk. The Company has not determined whether its mineral property interests contain economically recoverable reserves of ore and currently has not earned any revenues from its mineral properties and, therefore, does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of share capital and debt. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overhead to manage costs, commitments and exploration activities.

The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

There have been no changes to the Company's approach to capital management during the year.

6. MARKETABLE SECURITIES

The Company's marketable securities comprise the following common shares. The fair value of the available-for-sale investments have been determined directly by reference to published price quotations in an active market.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Melco China Resorts Holding Ltd.						
100,000 common shares	$ 65,000	$ 8,000	$ 65,000	$ 12,000	$ 65,000	$ 9,000
Solitario Royalty & Exploration Corp.						
50,000 common shares	136,250	68,000	-	-	-	-
Citigroup Inc.						
1,000 common shares	15,944	2,676	15,944	4,705	15,944	3,464
	$ 217,194	$ 78,676	$ 80,944	$ 16,705	$ 80,944	$ 12,464

7. RECEIVABLES

The Company's receivables are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Sales taxes receivable	$ 19,172	$ 27,006	$ 3,670
Other receivable	-	1,153	-
Total	$ 19,172	$ 28,159	$ 3,670

(Expressed in Canadian Dollars)

8. EQUIPMENT

		Computer equipment
Cost		
Balance, December 31, 2011 and 2010, and January 1, 2010	$	7,764
Accumulated depreciation		
Balance, January 1, 2010	$	5,175
Depreciation		1,424
Balance, December 31, 2010		6,599
Depreciation		1,165
Balance, December 31, 2011	$	7,764
Carrying amounts		
As at January 1, 2010	$	2,589
As at December 31, 2010	$	1,165
As at December 31, 2011	$	-

9. MINERAL PROPERTIES

		Mount Hamilton
Balance, December 31, 2010	$	4,234,017
Acquisition and borrowing costs		3,575,180
Exploration and evaluation costs		
Claims		396,467
Feasibility		978,676
Drilling		1,350,274
Geological		313,257
Travel		88,155
Other		70,122
Equipment		57,217
Total exploration and evaluation costs for the year		3,373,321
Balance before recoveries and impairment		11,182,518
Impairment		(39,560)
Recoveries		(852,498)
Balance before translation		10,290,460
Translation adjustments		14,289
Balance, December 31, 2011	$	10,304,749

(Expressed in Canadian Dollars)

9. MINERAL PROPERTIES (cont'd...)

		Mount Hamilton		Shell		Monte Cristo		Gold Range		Total
Balance, January 1, 2010	$	7,472,793	$	1,002,358	$	58,727	$	149,446	$	8,683,324
Acquisition and borrowing costs		2,210,789		-		26,500		-		2,237,289
Exploration and evaluation costs										
Claims		3,578		-		-		-		3,578
Feasibility		170,152		-		-		-		170,152
Camp and exploration support		54,686		-		-		-		54,686
Drilling		639,780		-		-		-		639,780
Geological		211,183		-		-		-		211,183
Travel		47,989		-		-		-		47,989
Total exploration and evaluation costs for the year		1,127,368		-		-		-		1,127,368
Balance, before impairment		10,810,950		1,002,358		85,227		149,446		12,047,981
Impairment		(6,538,217)		(962,574)		(85,227)		(149,446)		(7,735,464)
Balance before translation		4,272,733		1,002,358		85,227		149,446		4,312,517
Translation adjustments		(78,500)		-		-		-		(78,500)
Balance, December 31, 2010	$	4,194,233	$	39,784	$	-	$	-	$	4,234,017

9. MINERAL PROPERTIES (cont'd…)

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, title to all of its properties, except as described below, are properly registered and in good standing.

Mount Hamilton property, Nevada

The Mount Hamilton property is subject to minimum advance royalty payments of US$100,000 per year until November 19, 2010 when the minimum royalty payments increase to US$300,000 per annum. Upon commencement of commercial production, a base rate of 3% net smelter return royalty ("NSR") is payable, subject to an increase whenever the price of gold is greater than US$400 per ounce. The NSR shall increase by one-half of 1% for each US$50 increment to a maximum of 8% NSR. Of the NSR, 1.5% can be bought down at any time prior to the date commercial production commences for US$2,000,000 ("First Royalty Reduction Option").

On November 16, 2009, the Company negotiated an extension of the time permitted to make the US$100,000 advanced royalty payment otherwise required to be made by November 19, 2009. As consideration for the extension, the Company agreed to increase the amount of the payment from US$100,000 to US$110,000 and to issue to the lessor warrants exercisable to purchase up to an aggregate of 50,000 common shares of the Company at the price of $0.25 each until May 16, 2011. The warrants were exercised during the year ended December 31, 2011.

The fair value of the warrants was estimated to be $3,018 and has been included in mineral properties. The fair value of the warrants is estimated using the Black-Scholes option pricing model. Pursuant to the extension, the Company paid the $115,720 (US$110,000) lease payment on March 1, 2010.

On February 22, 2010 and April 28, 2010, the Company further negotiated amendments to the Mount Hamilton lease to reduce the NSR under the original agreement. If the Company exercises the First Royalty Reduction Option (noted above) and reduces the NSR to 6.5%, it will have the option to purchase an additional 1.75% NSR for a further $1,500,000 payment at any time prior to the date commercial production commences ("Second Royalty Reduction Option"), reducing the NSR to 4.75%. Upon exercise of the Second Royalty Reduction Option, the Company will have the option to purchase an additional 1.75% NSR for a further $1,500,000 payment at any time prior to the date commercial production commences ("Third Royalty Reduction Option"), reducing the NSR to 3.0%.

In addition, in 2010 the Company issued to the lessor share purchase warrants exercisable to purchase 4,000,000 common shares of the Company at a price of $0.32 per share to February 28, 2013 (the "reduction warrants"). If commercial production has not commenced before the sixtieth day (the "Trigger Date") before the expiry date, then within 10 days of the Trigger Date, the Company will apply to the TSX-V to extend the time period within which they may be exercised to February 28, 2015.

(Expressed in Canadian Dollars)

9. MINERAL PROPERTIES (cont'd…)

Mount Hamilton property, Nevada (cont'd…)

The fair value of the NSR reduction warrants were valued at $1,136,000 and were included as mineral properties. The fair value of the reduction warrants is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.21%
Expected dividend yield	0.00%
Expected stock price volatility	147.53%
Expected life in years	3.0

Pursuant to the LOI, the Company and Solitario agreed that the fair value of the Mount Hamilton and Monte Cristo project was $2,738,340 (US$2,700,000) resulting in an impairment of $6,538,217 to the Mount Hamilton property in December 2010.

Loan to Solitario

On May 27, 2011, MH-LLC entered into an agreement to buy-down the NSR on the Mount Hamilton property (the "Agreement"). Pursuant to the Agreement, the 3% NSR base rate has been reduced to 1% and the maximum NSR has been reduced from 8% to 6%; the percentages and costs of the three royalty reduction options noted above remain unchanged. As consideration for the royalty buy-down, MH-LLC paid US$2.52 million ($2.56 million).

Solitario contributed the entire proceeds of the royalty buy-down and loaned DHI US its 20%, US$504,000 ($534,192), proportionate share. The loan payable by DHI US to Solitario bears interest at 6% per annum and will be repaid from DHI US's future production proceeds. As at December 31, 2011, the amount owing to Solitario totalled $530,599 and is included in non-current liabilities. The proceeds of the royalty buy-down has been included in mineral properties as acquisition costs.

Shell property, Nevada

The Shell deposit is located near the Mount Hamilton property. The Shell property is subject to minimum advance royalty payments starting with US$80,000 payable on June 6, 2006 and increasing by US$20,000 per annum until production commences.

As at December 31, 2010, the Company had not made its 2010 advance royalty payments and during the year ended December 31, 2011, the Company and Solitario agreed to transfer the Shell property into MH-LLC at a fair value of $39,784 (US$40,000). MH-LLC will assume all liabilities related to the Shell property. The Company wrote-down its carrying amount as at December 31, 2010 to reflect the revised recoverable amounts.

During the year ended December 31, 2011, the Company and Solitario amended their agreement to reflect a fair value of $nil for the Shell property. Accordingly, the Company wrote-down the carrying amount from $39,560 to $nil. During the year ended December 31, 2011, the agreement was amended and an additional payment of US$160,000 was made, which was recorded as an acquisition cost. As at December 31, 2011, the Shell property is disclosed with the Mount Hamilton property.

Monte Cristo property, Nevada

The Monte Cristo property in White Pine County, Nevada, is adjacent to the Mount Hamilton and Shell properties.

The Monte Cristo property was included as part of the Company's initial contribution into MH-LLC and as a result wrote-down the carrying value of $85,227 to $nil.

9. MINERAL PROPERTIES (cont'd…)

Great American property, Nevada

During the year ended December 31, 2011, the Company entered into an option agreement to acquire 100% of the Great American property for a total payment of US$525,000, payable as follows:

- On signing the agreement - US$50,000 (paid)
- On or before September 8, 2012 – US$50,000
- On or before September 8, 2013 – US$75,000
- On or before September 8, 2014 – US$150,000
- On or before September 8, 2015 – US$200,000

The Great American property is subject to:

- an annual advanced minimum royalty payment, of the greater of US$30,000 or the cash value of 33 ounces of gold, commencing on September 8, 2016 and ending when production commences; and
- a 3% NSR from all gold or silver productions and 2% NSR from all other products produced or sold.

As at December 31, 2011, the Great American property is disclosed with the Mount Hamilton property.

Gold Range property, Nevada

During the year ended December 31, 2008, the Company entered into a lease agreement with Gold Range Company ("Gold Range") of Carson, Nevada, for certain mineral claims located in White Pine County, Nevada.

During the year ended December 31, 2010, the Company allowed the lease on the property to lapse and as a result wrote-down the carrying value of $149,446 to $nil.

Realization of Assets

The Company's investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, on the attainment of successful commercial production or from the proceeds of its disposal. The recoverability of the amounts shown for the mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the mineral properties, and upon future profitable production or proceeds from the disposition thereof.

Title to 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 of many mineral properties. Although the Company has taken steps to ensure title to the mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Asset title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

9. MINERAL PROPERTIES (cont'd…)

Environmental Matters

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its mineral properties. The Company conducts its exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current mineral properties that may result in a material liability to the Company.

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on these properties may be diminished or negated.

10. INVESTMENT IN MT. HAMILTON LLC

On December 22, 2010, the Company and Solitario incorporated MH-LLC pursuant to a LOI and an Operating Agreement to advance the Company's Mount Hamilton project located near Ely, Nevada, through to a bankable feasibility study ("BFS") and into production. The following summarizes the terms of the LOI and Operating Agreement:

(a) Solitario to subscribe for $500,000 in units comprising one common share and one-half of one share purchase warrant of Ely (issued);

(b) Solitario to contribute its initial investment to MH-LLC by making a US$300,000 advance royalty payment to the original owners of the Mount Hamilton property ("Underlying Royalty Holder") subject to the Mount Hamilton lease for a 10% interest in MH-LLC;

(c) Ely to contribute its mineral properties (Mount Hamilton and Monte Cristo) with a fair value of $2,738,340 (US$2,700,00) for a 90% interest in MH-LLC;

(d) Solitario to subscribe for three additional tranches of common shares of Ely:

(i) US$750,000 of common shares at a price equal to the 20-day weighted moving average price on the TSX-V (the "WMAP") on or before June 1, 2013;
(ii) US$750,000 of common shares at a price equal to the WMAP on or before June 1, 2014; and
(iii) US$1,000,000 of common shares at the WMAP on or before June 1, 2015.

(e) Phase I. To earn an additional 41% interest in MH-LLC, for a total of 51%, Solitario is required to:

(i) incur a minimum of US$1,000,000 in exploration expenditures by August 23, 2011 (incurred);
(ii) invest US$300,000 into MH-LLC for an advance royalty payment to the Underlying Royalty Holder; and
(iii) make payments totaling US$1,750,000 to DHI US (US$700,000 received) and issue 100,000 Solitario common shares to DHI US by August 23, 2012 (50,000 received). Refer to Note 19(b).

10. INVESTMENT IN MT. HAMILTON LLC (cont'd...)

(f) Phase II. To earn an additional 19% interest in MH-LLC, for a total of 70%, Solitario is required to:

(i) invest US$300,000 into MH-LLC for an advance royalty payment to the Underlying Royalty Holder; and
(ii) make payments totaling US$500,000 to DHI US and issue 100,000 Solitario common shares to DHI US by August 23, 2013.

(g) Phase III. To earn an additional 10% interest in MH-LLC, for a total of 80%, Solitario is required to:

(i) invest US$600,000 into MH-LLC for an advance royalty payment to the underlying royalty holder;
(ii) make payments totaling US$500,000 to DHI US and issue 100,000 Solitario common shares to DHI US by August 23, 2014; and
(iii) buy-down the existing 8% NSR to a 3% NSR by paying the Underlying Royalty Holder US$5,000,000 by November 19, 2014.

(h) After the completion of Phase I Earn-in, Solitario may elect to cease earning additional interest in MH-LLC at any time prior to the Phase II Earn-in or the Phase III Earn-in, in which case Solitario's interest in MH-LLC will be reduced to 49% and DHI US's interest will be increased to 51%.

(i) Alternatively, Solitario may also earn an 80% interest in MH-LLC by completion of a BFS at any time prior to the completion of Phase III Earn-in. However, if Solitario completes a BFS and earns an 80% interest in MH-LLC, as of that date, it will no longer be able to opt out of any future required payments, and will be obligated to make any unpaid payments of cash and common shares to DHI US, any unpaid payments to the Underlying Royalty Holder and any uncompleted additional subscriptions due to Ely by the due dates described above. Solitario is required per the terms of the Operating Agreement to fund all expenditures until completion of a BFS. (Note 19 (c)).

(j) Once Solitario has completed the BFS, all costs will be shared by Solitario and DHI US pro-rata based on equity interest owned (80%:20%).

In the event DHI US's share of such post-BFS expenditures are funded by Solitario, Solitario shall recover all expenditures made on DHI US's behalf, plus interest at a commercially competitive rate, exclusively from 80% of DHI US's share of distributions from MH-LLC.

For the period from December 22, 2010, the Company has consolidated the results of MH-LLC and recorded a non-controlling interest for the 10% equity interest held by Solitario. During the year ended December 31, 2011, Solitario has funded all costs of MH-LLC.

(Expressed in Canadian Dollars)

10. INVESTMENT IN MT. HAMILTON LLC (cont'd...)

The amount of non-controlling interest as at December 31, 2011 is as follows:

	December 31, 2011	December 31, 2010
Non-controlling interest , beginning of year	$ 1,542,827	$ -
Initial contribution by Solitario	-	302,400
Additional capital contributions by Solitario	5,759,372	1,250,266
Share of foreign currency translation adjustment	17,574	(7,850)
Share of net loss in MH-LLC	(7,209)	(1,989)
Non-controlling interest, end of year	$ 7,312,564	$ 1,542,827

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 350,140	$ 155,482	$ 59,210
Accrued liabilities	50,000	30,000	-
Due to related parties	949,068	715,754	78,027
Total	$ 1,349,208	$ 901,236	$ 137,237

12. OTHER LIABILITIES

On February 28, 2008, as amended on November 16, 2009, the Company acquired 100% of the issued and outstanding common shares of DHI, which owns 100% of the shares of DHI US, pursuant to an agreement with Augusta Resources Ltd. ("Augusta"). As consideration for the acquisition, the Company agreed to pay US$6,625,000 (the "Acquisition Payment") and issued 3,000,000 share purchase warrants with an exercise price of $0.50 per share, exercisable for 18 months from the date of the agreement at a fair value of $2,828,661. The Acquisition Payment is without interest and is payable as follows:

Upon signing	US	$1,625,000	(paid - $1,592,175)
February 28, 2009	US	$1,000,000	(paid - $1,247,520)
June 1, 2010	US	$250,000	(paid - $266,353 on August 31, 2010)
June 1, 2011	US	$500,000	(paid – $488,043)
June 1, 2012	US	$750,000	
June 1, 2013	US	$750,000	
June 1, 2014	US	$750,000	
June 1, 2015	US	$1,000,000	
	US	$6,625,000	

(Expressed in Canadian Dollars)

12. OTHER LIABILITIES (cont'd…)

The amended agreement on November 16, 2009 extended the Acquisition Payment for which the Company issued 2,000,000 share purchase warrants to Augusta to purchase 2,000,000 common shares of the Company at the price of $0.25 per share for a period of 18 months expiring May 16, 2011. These warrants were exercised during the year ended December 31, 2011. During the year ended December 31, 2010, the Company negotiated an extension of the June 1, 2010 Acquisition Payment to August 31, 2010 for additional consideration of US$40,000 (paid - $41,060).

The amount payable to Augusta is secured by the Company's shareholdings in DHI and all present and future assets of DHI and DHI US. As at December 31, 2011, the remaining balance due is US$3,250,000.

The loan is being amortized using the effective interest rate method at an effective interest rate of 10.47% with the undernoted carrying amounts. The interest is capitalized to mineral properties.

	December 31, 2011	December 31, 2010	January 1, 2010
Payable to Augusta Resources Ltd.	$ 2,721,494	$ 2,887,076	$ 2,997,817
Current portion	(762,750)	(497,300)	(261,650)
Other liabilities	$ 1,958,744	$ 2,389,776	$ 2,736,167

13. SHARE CAPITAL AND RESERVES

(a) Authorized share capital

As at December 31, 2011, the authorized share capital of the Company is an unlimited number of common shares without par value.

(b) Issued share capital

On March 29, 2011, the Company completed a non-brokered private placement and issued 9,856,000 units at a price of $0.25 per unit for gross proceeds of $2,464,000. Each unit is comprised of one common share and one-half of one share purchase warrant whereby one whole warrant entitles the holder to purchase one additional common share of the Company for two years at an exercise price of $0.40; provided that if at any time after four months after closing the Company's common shares have a closing price equal to or higher than $0.50 per common share for 20 consecutive trading days, the Company may accelerate the expiry of the warrants to 10 days. In connection with the private placement, finder's fees totaled $49,175 in cash, 400,000 common shares with a fair value of $100,000, and 196,700 share purchase warrants, with a fair value of $31,192, subject to the same exercise terms and conditions as the private placement warrants.

On October 19, 2010 and August 31, 2010, the Company completed a private placement of 3,333,333 units at a price of $0.15 per unit for gross proceeds of $500,000 in connection with the Solitario LOI. Each unit is comprised of one common share and one-half of one share purchase warrant whereby one whole warrant entitles the holder to purchase one additional common share of the Company for two years after closing at an exercise price of $0.25; provided that if the Company's closing price is equal to or higher than $0.35 per common share for 20 consecutive trading days, the Company may give notice to the warrant holders by way of a news release that the warrants will expire 10 days after the news release. No finder's fee was paid in connection with the private placement.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL AND RESERVES (cont'd...)

(b) Issued share capital (cont'd...)

During the year ended December 31, 2010, the Company completed a non-brokered private placement and issued 2,293,000 units at a price of $0.15 per unit for gross proceeds of $343,950. Each unit is comprised of one common share and one-half of one share purchase warrant whereby one whole warrant entitles the holder to purchase one additional common share of the Company for two years after closing at an exercise price of $0.25; provided that if the Company's closing price is equal to or higher than $0.35 per share for 20 consecutive trading days, the Company may give notice to the warrant holders by way of a news release that the warrants will expire 10 days after the news release. In connection with the private placement, a finder's fee of $5,940 was paid in cash and 38,000 warrants with an exercise price of $0.25 subject to the same accelerated exercise provision as mentioned above were granted. The 38,000 finder's warrants issued were fair valued at $5,696.

On January 29, 2010, the Company completed a non-brokered private placement and issued 2,000,000 common shares at a price of $0.15 for total proceeds of $300,000. No finder's fees were paid in conjunction with the private placement.

(c) Stock options

The Company has an incentive stock options plan (the "Plan") in place under which it is authorized to grant options to directors and employees to acquire up to 10% of the Company's issued and outstanding common shares. In addition, the aggregate number of shares reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares (2% if the participant is a consultant). Under the Plan, the exercise price of each option may not be less than the market price of the Company's share capital as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

As at December 31, 2011 and 2010, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

Expiry Date	Exercise Price	December 31, 2011	December 31, 2010
December 31, 2011	$ 0.29	-	50,000
May 8, 2012	$ 0.50	50,000	50,000
May 25, 2012	$ 0.50	150,000	150,000
February 26, 2015	$ 0.50	600,000	600,000
June 4, 2015	$ 0.20	750,000	750,000
July 7, 2015	$ 0.15	1,000,000	1,000,000
September 1, 2015	$ 0.15	1,000,000	1,000,000
January 5, 2016	$ 0.25	800,000	-
September 22, 2021	$ 0.20	1,500,000	-
Total outstanding and exercisable		5,850,000	3,600,000

The weighted average remaining contractual life for the outstanding options at December 31, 2011 is 7.75 (2010 – 4.26) years.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL AND RESERVES (cont'd...)

(c) Stock options (cont'd...)

Stock option transaction are summarized as follows:

	December 31, 2011			December 31, 2010		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	3,600,000	$	0.24	2,680,000	$	0.44
Granted	2,300,000	$	0.22	3,400,000	$	0.22
Exercised	-	$	-	(75,000)	$	0.20
Expired	(50,000)	$	0.29	(2,405,000)	$	0.44
Balance, end of year	5,850,000	$	0.23	3,600,000	$	0.24
Options exercisable, end of year	5,850,000	$	0.23	3,600,000	$	0.24

On January 4, 2011 and September 22, 2011, the Company granted to employees 800,000 and 1,500,000 stock options vesting immediately and with a fair value of $206,080 and $284,939, respectively. The fair value of stock options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	2.0 %	2.21%
Expected dividend yield	0.00 %	0.00 %
Expected stock price volatility	126%	152%
Expected life in years	8.26	5

The weighted average grant date fair value of stock options granted in 2011 was $0.21 (2010 - $0.22) per share.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL AND RESERVES (cont'd…)

(d) Warrants

As at December 31, 2011 and December 31, 2010, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	December 31, 2011	December 31, 2010
May 16, 2011	$ 0.25	-	2,050,000
August 4, 2012	$ 0.25	992,000	1,003,000
August 30, 2012	$ 0.25	833,333	833,333
August 31, 2012	$ 0.25	159,500	159,500
October 19, 2012	$ 0.25	833,333	833,333
February 28, 2013	$ 0.32	4,000,000	4,000,000
March 29, 2013	$ 0.40	5,124,700	-
		11,942,866	8,879,166

Share purchase warrant transactions are summarized as follows:

	December 31, 2011			December 31, 2010		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	8,879,166	$	0.28	2,050,000	$	0.25
Granted	5,124,700	$	0.40	6,851,166	$	0.29
Exercised	(2,061,000)	$	0.25	(22,000)	$	0.25
Balance, end of year	11,942,866	$	0.34	8,879,166	$	0.28

The fair value of warrants issued as compensation during the year ended December 31, 2011 was $0.16 (2010 - $Nil) estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	2.0%	N/A
Expected dividend yield	Nil	N/A
Expected stock price volatility	123%	N/A
Expected life in years	2	N/A

(Expressed in Canadian Dollars)

14. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Ely and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
DHI	British Columbia, Canada	100%	Holding Company
DHI US	Nevada, USA	100%	Mineral Exploration
Voyageur	Canada	100%	Holding Company
MH-LLC	Nevada, USA	90%	Mineral exploration

Key management comprises directors and executive officers. The Company incurred no post-employment benefits and no long-term benefits.

	December 31, 2011	December 31, 2010
Short-term employment benefits	$ 632,960	$ 947,290
Share-based payments	453,080	746,013
Total	$ 1,086,040	$ 1,693,303

At December 31, 2011, $949,068 (December 31, 2010 - $715,754; January 1, 2010 - $78,027) owing to related parties for consulting fees and a performance bonus to certain directors of $600,000 (December 31, 2010 - $600,000) (Note 19(a)) is included in accounts payable and accrued liabilities (Note 11).

All amounts due to related parties are payable on demand. Interest is not charged on outstanding balances.

The Company and one of its subsidiary's have each entered into a termination clause agreement with two of directors whereby each director is entitled to receive a cumulative amount of:

- $480,000 in the event they are terminated without cause; or
- $860,000 in the event there is a change of control.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash investing and financing transactions during the year ended December 31 consisted of:

	2011	2010
Fair value of warrants allocated to mineral property interests	$ -	$ 1,136,000
Fair value of warrants allocated to share issue costs	$ -	$ 5,695
Borrowing costs included in mineral properties	$ 269,036	$ -
Common shares issued with subscriptions receivable	$ -	$ 15,000
Mineral property costs included in accounts payable and accrued liabilities	$ 77,696	$ 9,794

16. CONTINGENCY

Lawsuit

On May 20, 2002, the Company was named as a defendant in a lawsuit in the Superior Court of King County, State of Washington. This lawsuit was filed by certain shareholders of Financial Market Solution ("FMS") for themselves and on behalf of FMS.

FMS was an insolvent corporation, which had filed for protection under the United States Bankruptcy Code in the Western District of Washington. The complaint alleged that certain assets of FMS were wrongfully transferred to the Company. The lawsuit was removed from the Superior Court of Washington to the Bankruptcy Court under applicable bankruptcy law and an adversary proceeding was commenced in the FMS bankruptcy. The assets subject to the complaint were eventually purchased by the Company out of the FMS bankruptcy pursuant to a court-approved sale, and effectively voided the original transaction under which the plaintiffs based their claims.

The plaintiffs agreed to dismiss the lawsuit and have signed a Stipulation and Order of Dismissal, dismissing the lawsuit, with prejudice, and without liability or cost to the Company. The Company has attempted to have the Stipulation and Order entered by the Superior Court, but this was rejected by the court based on the fact the plaintiff is not represented by counsel, which is required in Washington for corporations. The Company contacted the plaintiffs and requested that they retain counsel for purposes of entering the order, but have yet to hear from them. The Company received from a party to the lawsuit a copy of a Bankruptcy Order dismissing the lawsuit in the Bankruptcy Court. Management believes that the Company has no exposure under the claims brought by the plaintiffs. If nothing further is done, local rules require that the lawsuit be dismissed by the Superior Court on its own motion.

Northern Star Mining

The Company entered into two agreements, as amended on June 4, 2011 and June 24, 2011, with the holders of the senior secured notes (the "Secured Notes") issued by Northern Star Mining Corp. ("NSM") in order to obtain an interest in the NSM assets that are held as security against the Secured Notes. NSM declared bankruptcy in 2010. The agreements give the Company the right to acquire up to $28,681,669, being 65% of the $41,093,488 outstanding Secured Notes, ten business days following the date on which title to the NSM assets is vested to the Secured Note holders by way of a Court order. The agreements, as amended, provide for the following:

(a) Under the first agreement, the Company has agreed to purchase $7,500,000 in Secured Notes as follows:
   (i) Issue 10,000,000 common shares in exchange for $2,500,000 (6.1%) in Secured Notes; and
   (ii) Pay $500,000 in cash for a call option to purchase on or before April 30, 2012 an additional $5,000,000 (12.2%) in Secured Notes with the call option having an exercise price of $6,000,000 in cash.

(b) Under the second agreement, the Company has agreed to purchase $19,181,669 in Secured Notes as follows:
   (i) Pay $4,806,634 in cash in exchange for $4,806,634 (11.7%) in Secured Notes; and
   (ii) Pay $1,309,857 in cash for a call option to purchase on or before April 30, 2012 an additional $14,375,034 (35%) in Secured Notes with the call option having an exercise price of $17,860,681 in cash.

The total cash due by the Company on exercising their option under the first and second agreements is $500,000 and $6,116,491, respectively.

Both agreements remain subject to financing, definitive documentation and TSX-V approval, and to further due diligence by the Company.

As at December 31, 2011, no final order was issued.

(Expressed in Canadian Dollars)

17. SEGMENT INFORMATION

The Company has one reportable operating segment that is the acquisition and exploration of resource properties in two geographical locations: Canada and the United States.

	December 31, 2011	December 31, 2010	January 1, 2010
Non-current assets			
Canada	$ -	$ 1,165	$ 2,589
United States	10,372,590	4,234,017	8,683,324
	$ 10,372,590	$ 4,235,182	$ 8,685,913

18. DEFERRED INCOME TAXES

(a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	December 31, 2011	December 31, 2010
Loss for the year	$ (1,840,780)	$ (9,669,218)
Canadian statutory tax rate	26.5%	28.5%
Income tax benefit computed at statutory rates	(487,807)	(2,755,727)
Foreign tax rates different from statutory rates	(34,988)	(57,349)
Temporary differences	31,186	1,776,431
Change in timing differences	45,738	(872,064)
Rate difference between current and deferred taxes	8,916	201,935
Foreign exchange gains or losses	(9,437)	21,048
Permanent differences	131,223	303,549
Unused tax losses and tax offsets not recognized in tax asset	315,169	1,382,177
	$ -	$ -

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18.0% to 16.5% and the British Columbia provincial tax rate decreased from 10.5% to 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 28.5% to 26.5%.

(Expressed in Canadian Dollars)

18. DEFERRED INCOME TAXES (cont'd...)

(b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

		December 31, 2011		December 31, 2010
Non-capital losses	$	12,401,000	$	11,125,000
Capital losses		2,322,000		2,322,000
Share issue costs		3,000		5,000
Tax value over book value of equipment		2,000		1,000
Tax value over book value of mineral properties		6,167,000		6,422,000
Tax value over book value of investments		70,000		32,000
Unrecognized deductible temporary differences	$	20,965,000	$	19,907,000

19. EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to December 31, 2011, the Company issued 2,400,000 common shares at a value of $0.25 per common share in lieu of payment of a performance bonus award to the directors during the year ended December 31, 2010.

(b) Subsequent to December 31, 2011, the Company received US$150,000 and 25,000 common shares from Solitario (Note 10(e)(iii)) pursuant to the Operating Agreement.

(c) On February 22, 2012, Solitario announced the completion of a BFS on the Mount Hamilton property. As a result of the completion of the BFS, Solitario earned an 80% equity interest in MH-LLC and Ely's equity interest is reduced to 20%. Pursuant to the loss of control, the Company expects to deconsolidate its investment in MH-LLC from February 22, 2012. MH-LLC expenditures will be funded by Solitario and DHI US pro rata based on equity interest owned. In the event DHI US's share of such post-BFS expenditures are funded by Solitario, Solitario shall recover all expenditures made on DHI US's behalf, plus interest at a commercially competitive rate, exclusively from 80% of DHI US's share of distributions from MH-LLC.

As a result of the completion of the BFS, Solitario may no longer opt out of any future required payments, and will be obligated to make any unpaid payments of cash and common shares to DHI US, any unpaid payments to the Underlying Royalty Holder and any uncompleted additional subscriptions in Ely common shares by the due dates described in the Operating Agreement.

20. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the years ended December 31, 2011 and December 31, 2010, and the opening IFRS consolidated statement of financial position as at January 1, 2010, the "Transition Date".

In preparing the opening IFRS consolidated statement of financial position as at January 1, 2010 and the consolidated financial statements for the year ended December 31, 2010, the Company has adjusted amounts previously reported in the consolidated financial statements that were prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS.

Optional Exemptions

Share-based payment transactions

The Company elected to apply the requirements of IFRS 2 *Share-based Payment* only to equity instruments granted after November 7, 2002, which had not vested as of the Transition Date.

Business combinations

The Company has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company will apply IFRS 3 to business combinations that occur on or after January 1, 2010.

Mandatory Exceptions

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS, except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to revise estimates.

Cash Flows

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of cash flows for the year ended December 31, 2010.

(Expressed in Canadian Dollars)

20. FIRST TIME ADOPTION OF IFRS (cont'd…)

The reconciliation between Canadian GAAP and IFRS to the consolidated statement of financial position as at January 1, 2010 is provided below:

		January 1, 2010		
	Note 20	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		$ 243,050	$ -	$ 243,050
Marketable securities		12,464	-	12,464
Receivables		3,670	-	3,670
Prepaids		41,771	-	41,771
		300,955	-	300,955
Equipment		2,589	-	2,589
Mineral properties	(d)	9,196,286	(1,246,056)	8,683,324
	(e)		733,094	
		$ 9,499,830	$ (512,962)	$ 8,986,868
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 137,237	$ -	$ 137,237
Current portion of other liabilities		261,650	-	261,650
		398,887	-	398,887
Other liabilities		2,736,167	-	2,736,167
Deferred income tax liability	(d)	1,246,056	(1,246,056)	-
		4,381,110	(1,246,056)	3,135,054
EQUITY				
Share capital		18,561,078	-	18,561,078
Share-based payment reserve	(a) (c)	2,252,735	(793,499)	1,459,236
Investment revaluation reserve		(68,480)	-	(68,480)
Deficit		(15,626,613)	1,526,593	(14,100,020)
		5,118,720	733,094	5,851,814
		$ 9,499,830	$ (512,962)	$ 8,986,868

(Expressed in Canadian Dollars)

20. FIRST TIME ADOPTION OF IFRS (cont'd…)

The reconciliation between Canadian GAAP and IFRS consolidated statement of financial position as at December 31, 2010 is provided below:

	Note 20	December 31, 2010 Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		$ 196,538	$ -	$ 196,538
Marketable securities		16,705	-	16,705
Receivables		28,159	-	28,159
Prepaids		5,493	-	5,493
		246,895	-	246,895
Equipment		1,165	-	1,165
Mineral properties	(b)	4,312,517	(78,500)	4,234,017
	(e)		1,070,373	
			(1,070,373)	
		$ 4,560,577	$ (78,500)	$ 4,482,077
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 901,236	$ -	$ 901,236
Current portion of other liabilities		497,300	-	497,300
		1,398,536	-	1,398,536
Other liabilities		2,389,776	-	2,389,776
		3,788,312	-	3,788,312
EQUITY				
Share capital		19,735,394	-	19,735,394
Share based payment reserve	(a)	4,126,712	(2,008,654)	2,118,058
Investment revaluation reserve		(64,770)	-	(64,770)
Subscriptions receivable		(15,000)	-	(15,000)
Foreign currency translation reserve	(b)	-	(70,650)	(70,650)
Deficit	(a) (e) (f) (g)	(23,437,182)	885,088	(22,552,094)
Total equity attributable to shareholders		345,154	(1,194,216)	(849,062)
Non-controlling interest		427,111	(7,850)	1,542,827
			1,123,566	
		772,265	(78,500)	693,765
		$ 4,560,577	$ (78,500)	$ 4,482,077

(Expressed in Canadian Dollars)

20. FIRST TIME ADOPTION OF IFRS (cont'd…)

The reconciliation between Canadian GAAP and IFRS comprehensive loss for the year ended December 31, 2010 is provided below.

		Year Ended December 31, 2010		
	Note 20	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES				
Consulting		$ 947,290	$ -	$ 947,290
Depreciation		1,424	-	1,424
Insurance		16,155	-	16,155
Office and administration		28,145	-	28,145
Professional fees		207,848	-	207,848
Rent		31,200	-	31,200
Share-based compensation		753,783	-	753,783
Telecommunications		3,756	-	3,756
Transfer agent and filing fees		42,584	-	42,584
Travel and promotion		41,651	-	41,651
		(2,073,836)	-	(2,073,836)
OTHER INCOME (EXPENSES)				
Interest expense	(e)	(337,279)	337,279	-
Gain (loss) on foreign exchange	(d)	140,082	-	140,082
Write-down of mineral properties	(d)	(7,911,677)	1,246,586	(7,735,464)
	(e)		(1,070,373)	
		(8,108,874)	513,492	(7,595,382)
INCOME (LOSS) BEFORE OTHER ITEMS		(10,182,710)	513,492	(9,669,218)
Gain arising by capital contributions by non-controlling interest	(g)	1,123,566	(1,123,566)	-
INCOME (LOSS) BEFORE INCOME TAXES		(9,059,144)	(610,074)	(9,669,218)
Deferred income tax recovery		1,246,586	(1,246,586)	-
Loss for the year		$ (7,812,558)	$ (1,856,660)	$(9,669,218)
Comprehensive Income (Loss)				
Loss for the year		$ (7,812,558)	$ (1,856,660)	$(9,669,218)
Increase in market value of marketable securities, net of deferred income taxes		3,710	-	3,710
Currency translation adjustment	(b)	-	(70,650)	(70,650)
Comprehensive Loss for the Year		$ (7,808,848)	$ (1,927,310)	$(9,736,158)

20. FIRST TIME ADOPTION OF IFRS (cont'd…)

(a) Share-based payments

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for forfeited or expired unexercised stock options and warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

(b) Foreign currency translation

The foreign currency adjustment relates to integrated foreign operations under Canadian GAAP. IFRS does not distinguish between integrated and self-sustaining foreign operations and the current rate method is required to be applied to all entities where the functional currency is different from the presentation currency, resulting in an adjustment on transition to IFRS. This applies to the MH-LLC foreign exploration operations from incorporation and therefore only resulted in an adjustment to the balances as at December 31, 2010.

(c) Reclassification with equity section

Under Canadian GAAP, a balance within contributed surplus existed to record the issuance of warrants and equity-settled employee benefits. Under adoption of IFRS, the balances in these accounts have been reclassified to share-based payment reserve.

(d) Deferred tax on mineral properties

Under Canadian GAAP, the Company recognized deferred income taxes on temporary differences arising on the initial acquisition of the Mount Hamilton property, the Shell property and the Monte Cristo property (where the fair value of the asset acquired exceeded its tax basis) in a transaction which did not meet the definition of a business combination and affected neither accounting profit (loss) nor taxable profit (loss). IAS 12 *Income Taxes* does not permit the recognition of deferred taxes on such transactions.

As of the Transition Date and December 31, 2010, the Company has derecognized the impact of all deferred taxes which had previously been recognized on the initial acquisition of the mineral properties.

(e) Borrowing costs

Under Canadian GAAP, borrowing costs were expensed as incurred. IFRS requires capitalization of borrowing costs relating to qualifying assets. On adoption of IFRS, the borrowing costs relating to the acquisition of the Mount Hamilton property, the Shell property and the Monte Cristo property were capitalized.

(f) Mount Hamilton impairment

The write-down to the fair value of the mineral property was adjusted to reflect the above adjustments.

(g) Capital contributions by non-controlling interest

Under Canadian GAAP, the Company incorrectly recognized a gain arising by capital contributions by non-controlling interest. Upon adoption of IFRS, all capital contributions made by the non-controlling interest party are recognized in non-controlling interest balance.