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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

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

As at	September 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	$ 1,776,787	$ 2,256,104
Marketable securities (Note 4)	185,183	78,676
Receivables (Note 5)	679,847	19,172
Prepaid expenses	19,007	25,578
	2,660,824	2,379,530
Reclamation bond	-	67,841
Exploration and evaluation assets (Note 6)	-	10,304,749
Receivables (Note 5)	668,850	-
	$ 3,329,674	$ 12,752,120
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 81,964	$ 1,023,768
Current portion of other liabilities (Note 7)	737,775	762,750
	819,739	1,786,518
Loan payable (Note 6)	-	530,599
Other liabilities (Note 7 and Note 9)	1,885,210	2,284,184
	2,704,949	4,601,301
EQUITY		
Share capital (Note 8)	23,359,619	22,759,619
Share-based payment reserve (Note 8)	2,391,152	2,514,928
Investment revaluation reserve	(103,261)	(138,518)
Foreign currency translation reserve	-	87,891
Deficit	(25,022,785)	(24,385,665)
Equity attributable to owners of the Company	624,725	838,255
Non-controlling interest	-	7,312,564
	624,725	8,150,819
	$ 3,329,674	$ 12,752,120

Nature and continuance of operations (Note 1)
Subsequent events (Note 12)

Approved and authorized by the Board on November 29, 2012.

"Ronald Husband" Director — Ronald Husband

"Stephen Kenwood" Director — Stephen Kenwood

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

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
EXPENSES				
Consulting fees	$ 189,473	$ 160,788	$ 611,172	$ 519,532
Depreciation	-	845	-	1,165
Expense recoveries (Note 6)	-	-	(25,438)	-
Foreign exchange	17,007	186,731	(37,012)	104,603
Insurance	3,702	4,037	7,741	12,115
Interest income	(1,857)	(4,335)	(10,429)	(4,335)
Interest expense	-	10,421	14,686	10,421
Office and administration	4,932	64,641	25,406	115,199
Professional fees	39,721	78,639	89,228	173,352
Rent	4,800	5,625	14,400	16,125
Share-based payment	25,260	253,926	25,260	459,969
Transfer agent and filing fees	4,007	2,710	22,736	35,081
Travel and promotion	11,882	5,497	48,406	54,838
Loss for the period	(298,927)	(769,525)	(786,156)	(1,498,065)
Net loss for the period attributable to:				
Non-controlling interest	$ -	$ (5,418)	$ -	$ (9,375)
Common shareholders	(298,927)	(764,107)	(786,156)	(1,488,690)
	$ (298,927)	$ (769,525)	$ (786,156)	$ (1,498,065)
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	61,610,245	59,203,597	60,621,234	54,933,582
Comprehensive Loss				
Loss for the period	$ (298,927)	$ (769,525)	$ (786,156)	$ (1,498,065)
Change in fair value of marketable securities, net of taxes	8,390	(30,044)	35,257	(48,984)
Foreign currency translation reserve	-	283,145	(87,891)	290,374
Comprehensive Loss for the Period	**$** (290,537)	**$** (516,424)	**$** (838,790)	**$** (1,256,675)

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

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

Nine Months Ended September 30	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss) for the period	$ (786,156)	$ (1,498,065)
Items not affecting cash:		
Depreciation	-	1,165
Share-based payments	25,260	459,969
Unrealized foreign exchange	35,657	110,985
Forgiven interest	(25,438)	-
Changes in non-cash working capital items:		
Receivables	8,175	16,016
Prepaid expenses	74,412	(147,239)
Accounts payable and accrued liabilities	(111,211)	139,237
Net cash used in operating activities	(779,301)	(917,932)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from receivables	1,062,525	-
Mineral properties, net of recoveries	-	(4,157,190)
Net cash used in investing activities	1,062,525	(4,157,190)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of costs	-	2,945,076
Contributions from Solitario	-	4,460,680
Receipt of distribution (Note 6)	500,000	-
Receipt (repayment) of loan payable	(505,161)	534,192
Repayment of other liabilities	(757,380)	(488,043)
Net cash provided by financing activities	(762,541)	7,451,905
Change in cash for the period	(479,317)	2,376,783
Cash and cash equivalents, beginning of period	2,256,104	196,538
Cash and cash equivalents, end of period	$ 1,776,787	$ 2,573,321

Supplemental disclosure with respect to cash flows (Note 10)

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

ELY GOLD & MINERALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited - 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, December 31, 2010	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 (Note 8)	10,256,000	2,383,634	31,192	-	-	-	-	-	2,414,826
Exercise of warrants	2,061,000	640,591	(125,341)	-	-	-	-	-	512,250
Change in fair value of marketable securities,									
net of deferred income taxes	-	-	-	-	(48,984)	-	-	-	(48,984)
Share-based payments	-	-	491,019	-	-	-	-	-	491,019
Subscriptions receivable	-	-	-	15,000	-	-	-	-	15,000
Effects of foreign currency translation	-	-	-	-	-	361,024	-	40,113	401,137
Non-controlling interest capital contributions	-	-	-	-	-	-	-	4,420,567	4,420,567
Net loss for the period	-	-	-	-	-	-	(1,488,690)	(9,375)	(1,498,065)
Balance, September 30, 2011	59,210,245	22,759,619	2,514,928	-	(113,754)	290,374	(24,040,784)	5,994,132	7,404,515
Change in fair value of marketable securities,									
net of deferred income taxes	-	-	-	-	(24,764)	-	-	-	(24,764)
Effects of foreign currency translation	-	-	-	-	-	(202,483)	-	(22,539)	(225,022)
Non-controlling interest capital contributions	-	-	-	-	-	-	-	1,338,817	1,338,817
Net loss for the period	-	-	-	-	-	-	(344,881)	2,154	(342,727)
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
Shares issued during the year									
For debt (Note 8)	2,400,000	600,000	-	-	-	-	-	-	600,000
Change in fair value of marketable securities,									
net of deferred income taxes	-	-	-	-	35,257	-	-	-	35,257
Share-based payments	-	-	25,260	-	-	-	-	-	25,260
Forfeited stock options and warrants	-	-	(149,036)	-	-	-	149,036	-	-
Effects of foreign currency translation	-	-	-	-	-	(87,891)	-	-	(87,891)
Dilution of interest in MH-LLC	-	-	-	-	-	-		(7,312,564)	(7,312,564)
Net loss for the period	-	-	-	-	-	-	(786,156)	-	(786,156)
Balance, September 30, 2012	61,610,245	$ 23,359,619	$ 2,391,152	$ -	$ (103,261)	$ -	$ (25,022,785,)	$ -	$ 624,725

The accompanying notes are an integral part of these condensed interim 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 in 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 20% interest and the remaining 80% is held by Solitario subject to certain obligations as described in Note 5.

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 condensed interim 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 condensed interim 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 condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of consolidation and presentation

These condensed interim consolidated financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2011 consolidated annual audited financial statements. The condensed interim 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. (a Nevada corporation), Voyageur Gold Inc. ("Voyageur") (a Canadian corporation); the Company's 20% interest in MH-LLC is owned through DHI US.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

New standards yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended September 30, 2012:

• IFRS 9	New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets[iii]
• IFRS 10	New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities[i]
• IFRS 11	New standard to account for the rights and obligations in accordance with a joint agreement[i]
• IFRS 12	New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39[i]
• IFRS 13	New standard on the measurement and disclosure of fair value[i]
• IAS 1 (Amendment)	Presentation of other comprehensive income[ii]
• IAS 28 (Amendment)	New standard issued that supersedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures[i]

(i) Effective for annual periods beginning on or after January 1, 2013
(ii) Effective for annual periods beginning on or after July 1, 2012
(iii) Effective for annual periods beginning on or after January 1, 2015

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

4. 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. The fair value of marketable securities held by the Company was $185,483 (December 31, 2011 - $78,676).

5. 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);

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

(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 and issue 100,000 Solitario common shares to DHI US by August 23, 2012.

(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.
(iv) Fund all bonding requirements to achieve commercial production as described in the BFS.

As of February 22, 2012, Solitario earned an 80% interest in MH-LLC by completion of a BFS and no longer is able to opt out of future payments, and is obligated to make the following "Continuing Payment Obligations": i) make unpaid payments of cash and common shares to DHI US; ii) make unpaid payments to the Underlying Royalty Holder; iii) subscribe to the uncompleted additional subscriptions due to the Company by the due dates described above; iv) provide funding for all bonding requirements to achieve commercial production. Should Solitario default on any of the Continuing Payment Obligations, DHI US' equity interest in MH-LLC will revert to 51% and Solitario's interest will be reduced to 49%.

All other costs incurred by MH-LLC 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 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 of September 30, 2012, the Company is not indebted to Solitario for any proportionate share of expenses due to MH-LLC completing the sale of a 2.4% NSR during the period ended September 30, 2012 (Note 6).

(Expressed in Canadian Dollars)

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

The Company is no longer consolidating MH-LLC and has removed its non-controlling interest as the Company now accounts for its investment in MH-LLC as an equity investment and will subsequently record its share of income and losses from MH-LLC while significant influence is maintained.

The amount of non-controlling interest as at September 30, 2012 and December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
Non-controlling interest, beginning of period	$ 7,312,564	$ 1,542,827
Reduction of investment to 20% of MH-LLC	(7,312,564)	-
Additional capital contributions by Solitario	-	5,759,372
Share of foreign currency translation adjustment	-	17,574
Share of net loss in MH-LLC	-	(7,209)
Non-controlling interest, end of period	$ -	$ 0

All cash and share amounts receivable ($1,337,700) from Solitario for the remainder of the agreement have been netted against the Company's investment in MH-LLC, along with all other amounts previously received that had been included in exploration and evaluation assets as recoveries. The total amount receivable has been equally distributed between current and long-term receivables on the balance sheet.

At September 30, 2012, amounts receivable from Solitario and previous recoveries from MH-LLC have exceeded their original cost and as such, the Company carries a $Nil balance (December 31, 2011 - $Nil) for its equity investment. As a result, the Company has not recognized its share of MH-LLC income and losses in the statement of operations. All future recoveries are shown on the statement of operations.

During the nine months ended September 30, 2012, the Company and Solitario amended the terms of the Operating Agreement by which Solitario will subscribe to the Company's shares (note 5(d)). Under the terms of the amendment, Solitario is to subscribe for three additional tranches of common shares of the Company as follows:

a) Tranche 1 - US$750,000 of common shares on May 1, 2013;
b) Tranche 2 - US$750,000 of common shares on or before May 1, 2014; and
c) Tranche 3 - US$1,000,000 of common shares on or before May 1, 2015.

The price per common share for each tranche will be equal to the greater of (a) the 20 day weighted moving average price of the Company's shares on the TSX-V (the "WMAP") over the 20 days immediately preceding the subscription date; and (b) the Discounted Market Price (as that term is defined in the Policies of the TSX-V) of the Company's shares on the last trading day immediately preceding the date of the subscription agreement.

The Company shall utilize the proceeds of each tranche only to make the required payments to Augusta, which are currently due on June 1, 2013, June 1, 2014 and June 1, 2015 and will make such payments within three business days after the day in which the proceeds from the respective tranche has been received.

Under the terms of the amendment, the Company has the right, but not the obligation, to reduce the aggregate subscription amount for any given tranche, provided that the Company has provided written notice to Solitario stating its election to reduce the aggregate subscription amount of the respective tranche and that the Company has sufficient funds to make the required payments to Augusta by the respective due dates.

Solitario is not entitled to subscribe for any of the three tranches prior to May 1, 2013.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

		Mount Hamilton
Balance, December 31, 2011	$	10,304,749
Adjustment as a result of the Company's dilution of interest in MH-LLC		(10,304,749)
Balance, September 30, 2012	$	-

As of February 22, 2012, Solitario's interest in MH-LLC increased to 80% resulting in the Company no longer consolidating MH-LLC. The Company now accounts for its investment in MH-LLC as an equity investment and will subsequently record its share of income and losses from MH-LLC while significant influence is maintained (Note 5).

		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

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

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 (paid - $115,720) 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.

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 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.

Solitario Loan

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, 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. At December 31, 2011, the proceeds of the royalty buy-down were included in exploration and evaluation assets as acquisition costs.

Sandstorm NSR Royalty

On June 11, 2012, MH-LLC entered into an agreement with Sandstorm Gold Ltd. ("Sandstorm") whereby Sandstorm has purchased a 2.4% NSR on the Mount Hamilton gold project for US$10 million. US$6 million was paid upon signing and the remaining US$4 million shall be paid to MH-LLC on January 15, 2013. As part of the agreement, MH-LLC will have the option, for a period of 30 months, to repurchase up to 100% of the NSR for US$12 million, provided that Solitario enters into a gold stream agreement with Sandstorm that has an upfront deposit of no less than US$30 million. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mount Hamilton project.

6. **EXPLORATION AND EVALUATION ASSETS** (cont'd…)

Mount Hamilton property, Nevada (cont'd…)

MH-LLC Distribution

On June 28, 2012, subsequent to the Sandstorm NSR, Ely Gold and Solitario entered into an agreement whereby MH-LLC distributed US$2,500,000 to its partners. Solitario received US$2,000,000 for reimbursement of its share of the 2011 royalty purchase. DHI US received US$500,000, which was paid to Solitario to repay the loan payable for DHI US's proportionate share of the 2011 royalty purchase. At the time of the repayment of the loan payable, Solitario forgave the accrued interest of $25,438, which has been included in expense recoveries on the statement of operations.

Great American property, Nevada

During the year ended December 31, 2011, MH-LLC 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 (paid)
- 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.

(Expressed in Canadian Dollars)

7. 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 ("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	(paid – $757,380)
June 1, 2013	US	$750,000	
June 1, 2014	US	$750,000	
June 1, 2015	US	$1,000,000	
	US	$6,625,000	

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.

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 September 30, 2012, the remaining balance due is US$2,500,000.

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.

	September 30, 2012	December 31, 2011
Payable to Augusta Resources Ltd.	$ 2,072,113	$ 2,721,494
Current portion	(737,775)	(762,750)
Other liabilities	$ 1,334,338	$ 1,958,744

8. SHARE CAPITAL AND RESERVES

(a) Authorized share capital

As at September 30, 2012, the authorized share capital of the Company is an unlimited number of common shares without par value.

(b) Issued share capital

During the nine month period ended September 30, 2012, 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.

During the year ended December 31, 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.

(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.

(Expressed in Canadian Dollars)

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

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

As at September 30, 2012 and December 31, 2011, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

Expiry Date	Exercise Price	September 30, 2012	December 31, 2011
May 8, 2012	$ 0.50	-	50,000
May 25, 2012	$ 0.50	-	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	800,000
July 30, 2017	$ 0.14	200,000	-
September 22, 2021	$ 0.20	1,300,000	1,500,000
Total outstanding and exercisable		5,650,000	5,850,000

The weighted average remaining contractual life for the outstanding options at September 30, 2012 is 4.32 (December 31, 2011 – 7.75) years.

Stock option transactions are summarized as follows:

	September 30, 2012		December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	5,850,000	$ 0.23	3,600,000	$ 0.24
Granted	200,000	$ 0.14	2,300,000	$ 0.22
Expired	(400,000)	$ 0.35	(50,000)	$ 0.29
Balance, end of period	5,650,000	$ 0.22	5,850,000	$ 0.23
Options exercisable, end of period	5,650,000	$ 0.22	5,850,000	$ 0.23

(Expressed in Canadian Dollars)

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

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

On January 4, 2011, the Company granted to employees 800,000 stock options vesting immediately and with a fair value of $206,080.

On July 30, 2012, the Company granted to employees 200,000 stock options vesting immediately and with a fair value of $25,260.

The fair value of stock options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Risk-free interest rate	1.2 %	2.0%
Expected dividend yield	0.00 %	0.00 %
Expected stock price volatility	134 %	116%
Expected life in years	5	5

The weighted average grant date fair value of stock options granted during the nine month period ended September 30, 2012 was $0.13 (December 31, 2011 - $0.25) per share.

(d) Warrants

As at September 30, 2012 and December 31, 2011, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	September 30, 2012	December 31, 2011
August 4, 2012	$ 0.25	-	992,000
August 30, 2012	$ 0.25	-	833,333
August 31, 2012	$ 0.25	-	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	5,124,700
		9,958,033	11,942,866

(Expressed in Canadian Dollars)

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

(d) Warrants (cont'd…)

Share purchase warrant transactions are summarized as follows:

	September 30, 2012			December 31, 2011		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of period	11,942,866	$	0.34	8,879,166	$	0.28
Granted	-	$	-	5,124,700	$	0.40
Exercised	-	$	-	(2,061,000)	$	0.25
Expired	(1,984,833)	$	0.25	-	$	0.00
Balance, end of period	9,958,033	$	0.36	11,942,866	$	0.34

The fair value of warrants issued as compensation during the period ended September 30, 2012 was $Nil (December 31, 2011 - $0.16) estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Risk-free interest rate	N/A	2.0%
Expected dividend yield	N/A	Nil
Expected stock price volatility	N/A	123%
Expected life in years	N/A	2

(Expressed in Canadian Dollars)

9. 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

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

	September 30, 2012	September 30, 2011
Short-term employment benefits	$ 525,189	$ 449,166
Share-based payments	25,260	453,080
Total	$ 550,449	$ 902,246

As at September 30, 2012, $9,837 (December 31, 2011 - $104,988) owing to related parties for consulting fees and a performance bonus to certain directors of $Nil (December 31, 2011 - $600,000) is included in accounts payable and accrued liabilities.

As at September 30, 2012, $550,872 (December 31, 2011 - $325,440) is included in Other liabilities for deferred consulting fees owing to related parties that are not payable until January 1, 2015.

All amounts due to related parties are payable on demand other than the deferred salaries included in Other liabilities, which are not due until January 1, 2015. Interest is not charged on outstanding balances.

The Company and one of its subsidiaries have each entered into a termination clause agreement with two of the Company's 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.

(Expressed in Canadian Dollars)

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash operating, investing and financing transactions during the period ended September 30 consisted of:

		2012		2011
Shares issued to settled debt	$	600,000	$	-
Borrowing costs included in mineral properties	$	-	$	68,620
Common shares received from optioned mineral properties	$	71,250	$	-
Exploration and evaluation assets costs included in accounts payable and accrued liabilities	$	-	$	77,696

11. 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.

		September 30, 2012		December 31, 2011
Non-current assets				
Canada	$	-	$	-
United States		668,850		10,372,590
	$	668,850	$	10,372,590

12. SUBSEQUENT EVENTS

Subsequent to September 30, 2012:

(a) 833,333 warrants with an exercise price of $0.25 expired unexercised.