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

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

YEAR ENDED DECEMBER 31, 2012

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, 2012 and 2011, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended 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 describes matters and conditions that indicate the existence of material uncertainties 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 24, 2013

Smythe Ratcliffe LLP is a member firm of both the PKF International Limited network and PKF North America, which are, respectively, a network and an association of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

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

As at	December 31, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	$ 1,645,595	$ 2,256,104
Marketable securities (Note 6)	153,500	78,676
Receivables (Note 7)	655,634	19,172
Prepaid expenses	13,961	25,578
	2,468,690	2,379,530
Non-Current		
Reclamation bond	-	67,841
Exploration and evaluation assets (Note 9)	-	10,304,749
Other receivables (Note 8)	603,600	-
	$ 3,072,290	$ 12,752,120
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 10 and 13)	$ 121,193	$ 1,349,208
Current portion of other liabilities (Note 11)	746,175	762,750
	867,368	2,111,958
Non-Current		
Loan payable (Note 9)	-	530,599
Deferred compensation (Note 13)	665,190	-
Other liabilities (Note 11)	1,403,552	1,958,744
	2,936,110	4,601,301
EQUITY		
Share capital (Note 12)	23,359,619	22,759,619
Share-based payment reserve (Note 12)	2,384,187	2,514,928
Investment revaluation reserve	-	(138,518)
Foreign currency translation reserve	-	87,891
Deficit	(25,607,626)	(24,385,665)
Equity attributable to owners of the Company	136,180	838,255
Non-controlling interest (Note 8)	-	7,312,564
	136,180	8,150,819
	$ 3,072,290	$ 12,752,120

Approved and authorized by the Board:

"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	2012	2011
EXPENSES		
Consulting fees	$ 805,726	$ 776,001
Depreciation	-	1,165
Insurance	11,443	16,155
Mineral property investigation	1,265	-
Office and administration	27,195	48,508
Professional fees	105,612	252,004
Rent	19,200	20,925
Share-based payments	18,295	491,019
Transfer agent and filing fees	26,356	37,644
Travel and promotion	54,976	68,121
	(1,070,068)	(1,711,542)
Interest recovery (expense) (Note 9)	17,723	(17,535)
Interest income (Note 8)	70,789	6,783
Write-down of exploration and evaluation assets	-	(39,560)
Loss on fair value of receivables (Note 8)	(20,000)	-
Loss on derivative financial liability (Note 13)	(28,454)	-
Loss on equity investment (Note 8)	(58,408)	-
Loss on sale of subsidiary (Note 8)	(387,871)	-
Excess on distribution from equity investment (Note 8)	212,492	-
Impairment of marketable securities	(134,944)	-
Gain (loss) on foreign exchange	26,905	(78,926)
Loss for the year	$ (1,371,836)	$ (1,840,780)
Loss for the year attributable to:		
Non-controlling interest	$ (839)	$ (7,209)
Common shareholders	(1,370,997)	(1,833,571)
	$ (1,371,836)	$ (1,840,780)
Basic and diluted loss per share	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding	61,124,999	55,995,831
Comprehensive loss		
Loss for the year	$ (1,371,836)	$ (1,840,780)
Change in fair value of marketable securities, net of taxes	7,606	(73,748)
Transfer on impairment of marketable securities	130,912	-
Foreign currency translation reserve	(87,891)	158,541
Comprehensive loss for the year	**$** (1,321,209)	**$** (1,755,987)

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	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,371,836)	$ (1,840,780)
Items not affecting cash:		
Depreciation	-	1,165
Share-based payments	18,295	491,019
Unrealized foreign exchange	(12,615)	-
Write-down of exploration and evaluation assets	-	39,560
Loss on fair value of receivables	20,000	-
Interest income accretion	(58,380)	-
Loss on derivative financial liability	28,454	-
Loss on sale of subsidiary	387,871	-
Interest recovery	(17,723)	-
Excess on distribution from equity investment	(212,492)	-
Loss on equity investment	58,408	-
Impairment of marketable securities	134,944	-
Changes in non-cash working capital items:		
Receivables	99	8,987
Prepaid expenses	11,108	(20,085)
Accounts payable and accrued liabilities	(186,371)	910,669
Deferred compensation	339,749	-
Net cash used in operating activities	(860,489)	(409,465)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution from equity investment	497,450	-
Reclamation bond	-	(67,841)
Exploration and evaluation expenditures, net of recoveries	(210,752)	(6,019,568)
Net cash provided by (used in) investing activities	286,698	(6,087,409)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of issuance costs	-	2,945,076
Contributions from Solitario Exploration & Royalty Corp.	315,087	5,776,946
Repayment of loan payable	(505,161)	-
Repayment of other liabilities, net of recoveries	153,356	(165,582)
Net cash provided by (used in) financing activities	(36,718)	8,556,440
Change in cash and cash equivalents for the year	(610,509)	2,059,566
Cash and cash equivalents, beginning of year	2,256,104	196,538
Cash and cash equivalents, end of year	$ 1,645,595	$ 2,256,104
Cash and cash equivalents consists of		
Cash	$ 824,595	$ 931,104
Term deposit	821,000	1,325,000
	$ 1,645,595	$ 2,256,104

Supplemental disclosure with respect to cash flows (Note 14)

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, 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 12(b))	10,256,000	2,383,633	31,192	-	-	-	-	-	2,414,825
Exercise of warrants	2,061,000	640,592	(125,341)	-	-	-	-	-	515,251
Change in fair value of marketable securities, net of deferred income taxes	-	-	-	-	(73,748)	-	-	-	(73,748)
Share-based payments	-	-	491,019	-	-	-	-	-	491,019
Subscriptions receivable	-	-	-	15,000	-	-	-	-	15,000
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
Shares issued during the year for debt (Note 12(b))	2,400,000	600,000	-	-	-	-	-	-	600,000
Change in fair value of marketable securities, net of deferred income taxes	-	-	-	-	7,606	-	-	-	7,606
Impairment of marketable securities	-	-	-	-	130,912	-	-	-	130,912
Share-based payments	-	-	18,295	-	-	-	-	-	18,295
Expired stock options and warrants	-	-	(149,036)	-	-	-	149,036	-	-
Effects of foreign currency translation	-	-	-	-	-	(157,915)	-	(17,546)	(175,461)
Non-controlling interest capital contributions	-	-	-	-	-	-	-	315,087	315,087
Dilution of interest in subsidiary	-	-	-	-	-	70,024		(7,609,266)	(7,539,242)
Net loss for the year	-	-	-	-	-	-	(1,370,997)	(839)	(1,371,836)
Balance, December 31, 2012	61,610,245	$ 23,359,619	$ 2,384,187	$ -	$ -	$ -	$ (25,607,626)	$ -	$ 136,180

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") was 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 480 – 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"). On February 22, 2012, Solitario completed a bankable feasibility study ("BFS") increasing Solitario's ownership interest in MH-LLC to 80% with the Company holding the remaining 20% interest. Refer to Note 8 for a description of Solitario's obligations.

The recovery of the amounts comprising exploration and evaluation assets 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.

The Company incurred a net loss of $1,371,836 for the year ended December 31, 2012 (2011 - $1,840,780). As at December 31, 2012, the Company had an accumulated deficit $25,607,626 with a working capital of $1,601,322.

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.

These consolidated financial statements were approved by the board of directors for issue on April 24, 2013.

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.

Basis of consolidation and presentation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale and derivative financial liability, which are stated at their fair value. All dollar amounts presented are in Canadian dollars, the Company's functional currency, unless otherwise specified.

2. BASIS OF PREPARATION (cont'd…)

Basis of consolidation and presentation (cont'd…)

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 wholly-owned subsidiaries, DHI Minerals Ltd. ("DHI") (a Canadian corporation), DHI Minerals (US) Ltd. ("DHI US") (a Nevada corporation) and Voyageur Gold Inc. ("Voyageur") (a Canadian corporation). The Company's 20% equity interest in MH-LLC is owned through DHI US. 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 financial statements of the subsidiary to bring the accounting policies used in line with those used by the Company.

Use of estimates and judgments

The preparation of these consolidated financial statements 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.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, which could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- recoverability of marketable securities and receivables;
- completeness of accrued liabilities;
- the recognition of deferred income tax assets; and
- the assumptions used in the calculation of the fair value assigned to share-based payments.

Critical accounting judgments

Management must make judgments given the various options available as per accounting standards for items included in the consolidated financial statements. Judgments involve a degree of uncertainty and could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual events differ from a judgment made. A summary of items involving management judgment include, but are not limited to:

- the determination of the categories in which financial assets and liabilities are classified; and
- the determination of fair value of the remaining interest of the investment in associate on the date the Company lost control.

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.

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

<u>Financial assets</u>

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. It initially measures financial assets and financial liabilities at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss ("FVTPL"), which is recognized immediately in profit or loss). Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

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

Financial instruments (cont'd...)

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

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 FVTPL, 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.

Financial liabilities

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

FVTPL - 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 (loss) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Mineral properties – exploration and evaluation expenditures

Pre-exploration costs are expensed 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 expensed 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.

Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic 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.

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Provision for environmental rehabilitation (cont'd…)

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.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associates. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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 and transferred to deficit. 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.

New standards not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early-adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards Issued and Effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* replaces guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Interest in Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, set out in a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases;* measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

IAS 19 *Employee Benefits* was amended to eliminate the option to defer, or recognize in full in profit or loss, actuarial gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for definite benefit plans.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards not yet adopted (cont'd...)

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors in joint control of, or significant influence over, an investee (associate or joint venture).

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7: *Financial Instruments: Disclosures*) amends the disclosure requirements in IFRS 7 to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

Annual Improvements 2009-2011 Cycle makes amendments to the following standards:

- IFRS 1 – permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets
- IAS 1 – clarification of the requirements of comparative information
- IAS 16 – classification of servicing equipment
- IAS 32 – clarifies that tax effect of distribution to holders of equity instruments should be accounted for in accordance with IAS 12 *Income Taxes*
- IAS 34 – clarifies interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 *Operating Segments*

Accounting Standards Issued and Effective January 1, 2014

IAS 32 *Financial Instruments: Presentation* clarifies certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- The meaning of "currently has a legally enforceable rights of set-off";
- The application of simultaneous realization and settlement;
- The offsetting of collateral amounts; and
- The unit of account for applying the offsetting requirements.

Accounting Standards Issued and Effective January 1, 2015

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 *Financial Instruments: Recognition and Measurement,* replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

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. FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents and deferred compensation as FVTPL; marketable securities, as available-for-sale; receivables, as loans and receivables; 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 and deferred compensation have been based on quoted market prices, a Level 1 measurement according to the fair value hierarchy. The carrying value of receivables and other liabilities approximate fair values as the instruments are subject to market rates of interest.

4. FINANCIAL INSTRUMENTS (cont'd…)

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

(a) 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. The Company manages credit risk, in respect of additional consideration receivable from Solitario, by holding a security of Solitario's interest in MH-LLC. Should Solitario default on any of the payments to DHI US, Solitario's interest will be reduced from 80% to 49%.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at major Canadian financial institutions and other receivable. The Company's concentration of credit risk and maximum exposure thereto as of December 31 is as follows:

		2012		2011
Cash and cash equivalents	$	1,645,595	$	2,256,104
Receivables	$	1,240,161	$	-

As at December 31, 2012, the Company has two guaranteed investment certificates totalling $821,000, earning interest at 0.90% and prime less 1.8%, maturing on August 26, 2013 and July 26, 2013, respectively, and cashable at any time.

(b) 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, 2012, the Company has cash and cash equivalents of $1,645,595 (2011 - $2,256,104), current liabilities of $867,368 (2011 - $2,111,958) and working capital of $1,601,322 (2011 - $267,572).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2012:

Due Date		Accounts Payable and Accrued Liabilities		Deferred Compensation		Other Liabilities (Note 11)
0 – 90 days	$	121,193	$	-	$	-
90 – 365 days	$	-	$	-	US$	750,000
More than 1 year	$	-	$	665,190	US$	1,750,000

4. FINANCIAL INSTRUMENTS (cont'd…)

(b) Liquidity risk (cont'd…)

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 11)
0 – 90 days	$	1,349,208	$	-
90 – 365 days	$	-	US$	750,000
More than 1 year	$	-	US$	2,500,000

(c) 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, 2012, 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 deferred compensation and a loan payable in US dollars. Foreign currency risk arises because the amount of the US dollar cash, intercompany balances and payables will vary in Canadian dollar terms due to changes in exchange rates.

As at December 31, 2012, the Company has not hedged its exposure to currency fluctuations.

4. FINANCIAL INSTRUMENTS (cont'd…)

(c) Market risk (cont'd…)

(ii) Foreign currency risk (cont'd…)

At December 31, 2012 and 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		2012		2011
Cash	US$	827,224	US$	84
Marketable securities		-		2,631
Amounts receivable [1]		1,000,000		-
Other financial liabilities [2]		(2,869,347)		(2,984,244)
Net	US$	(1,042,123)	US$	(2,981,529)
Canadian dollar equivalent		(1,036,808)		(3,032,215)

[1] Includes receivables and other receivables.
[2] Includes accounts payable and accrued liabilities, deferred compensation and other liabilities.

Based on the above net exposures as at December 31, 2012, a 5% change in the Canadian/US exchange rate would impact the Company's earnings by approximately $51,840.

(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 exposed to other price risk on its deferred compensation, which is indexed to the Dow Jones Industrial Average ("DJIA") thus its value fluctuates based on movement in that index. At December 31, 2012, a 5% change in the DJIA would impact the Company's earnings by approximately $33,340. The Company is not exposed to significant price risk on its marketable securities.

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 exploration and evaluation assets. 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, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Melco China Resorts Holding Ltd.				
100,000 common shares	$ 65,000	$ 3,500	$ 65,000	$ 8,000
Solitario Royalty & Exploration Corp.				
100,000 (2011 – 50,000) common shares	207,500	150,000	136,250	68,000
Citigroup Inc.				
1,000 common shares	-	-	15,944	2,676
	$ 272,500	$ 153,500	$ 217,194	$ 78,676

During the year ended December 31, 2012, the Company's share holding in Citigroup Inc. was written off.

Management made the assessment that marketable securities have experienced a prolonged decline in their fair values. Accordingly, an impairment of $130,912 has been transferred from accumulated other comprehensive loss and recognized in net loss.

7. RECEIVABLES

The Company's receivables as of December 31 are as follows:

	2012	2011
Sales taxes receivable	$ 19,073	$ 19,172
Current portion of additional consideration receivable (Note 8)	636,561	-
Total	$ 655,634	$ 19,172

8. INVESTMENT IN MT. HAMILTON LLC

On December 22, 2010 and as subsequently amended on June 28, 2012 and August 10, 2012, 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 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 (paid);

(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 (contributed);

8. INVESTMENT IN MT. HAMILTON LLC (cont'd…)

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

(i) US$750,000 of common shares on or before May 1, 2013;
(ii) US$750,000 of common shares on or before May 1, 2014; and
(iii) 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 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 Resources Ltd. ("Augusta") (Note 11), which are currently due 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.

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 required to subscribe for any of the three tranches prior to May 1, 2013.

(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 (paid)
(iii) make payments totaling US$1,750,000 to DHI US (paid) and issue 100,000 Solitario common shares to DHI US by August 23, 2012 (received).

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

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

8. INVESTMENT IN MT. HAMILTON LLC (cont'd…)

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.

As of February 22, 2012, Solitario earned an 80% interest in MH-LLC by completion of a BFS and is committed and obligated to make the following payments and share issuances:

(i) make unpaid payments of cash and common shares to DHI US totaling US$1,000,000 and 200,000 common shares of Solitario;
(ii) make unpaid payments to the Underlying Royalty Holder (US$5,900,000);
(iii) subscribe to the uncompleted additional subscriptions due to DHI US by the due dates described above; and
(iv) provide funding for all bonding requirements to achieve commercial production (collectively referred to as the "Continuing Payment Obligations").

Should Solitario default on any of the Continuing Payment Obligations, DHI US's 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 December 31, 2012, the Company is not indebted to Solitario for any proportionate share of MH-LLC expenses (Note 9).

Effective February 22, 2012, the Company determined it no longer had control over MH-LLC based on elements of control in accordance with IAS 27 *Consolidated and Separate Financial Statements* and, accordingly, is no longer consolidating the financial results of MH-LLC. As the Company has significant influence over MH-LLC, the Company accounts for its investment in MH-LLC as an equity investment and will subsequently record its share of profit or loss from MH-LLC in the statement of operations while significant influence is maintained.

Upon loss of control of MH-LLC, the retained interest was recorded at a fair value of $343,366 and is adjusted for the Company's 20% interest in the profit or loss of MH-LLC for each period going forward or to the extent of any distributions from MH-LLC.

The loss of control of MH-LLC has the following impact on net loss and comprehensive loss:

Fair value of the retained investment in MH-LLC, February 22, 2012	$ 343,366
Fair value of additional consideration receivable	1,201,871
Carrying amount of MH-LLC	(1,933,018)
Loss recognized on loss of control of MH-LLC	$ (387,781)

The additional consideration receivable from Solitario comprises cash of US$1,000,000 and 200,000 Solitario common shares.

The net present value of the cash component of the consideration receivable on February 22, 2012 was calculated as $881,781, using a discount rate of 7% and a deferred interest income of $118,619. On February 22, 2012, the Solitario common shares component of the consideration receivable were fair valued using the closing market price of Solitario's common shares for a total amount of $320,000.

8. INVESTMENT IN MT. HAMILTON LLC (cont'd…)

As at December 31, 2012, the net present value of the cash component of the consideration receivable is $940,161 and the fair value of the Solitario common shares component of the consideration receivable is $300,000 and is disclosed in the consolidated statement of financial position as follows:

Current receivables	$ 636,561
Non-current receivables	603,600
Total	$ 1,240,161

The cash component is recognized at amortized cost and is being accreted up to its face value with changes in carrying value recognized as interest income. For the year ended December 31, 2012, interest income of $58,380 and a loss on the fair value of the Solitario common shares receivable of $20,000 was recognized in profit and loss.

The continuity of the Company's investment in MH-LLC is as follows:

Fair value of the retained investment in MH-LLC, February 22, 2012	$ 343,366
Share of losses of MH-LLC for the period from February 22, to December 31, 2012	(58,408)
Distribution by MH-LLC	(497,450)
Excess on distribution from equity investment	$ (212,492)

At December 31, 2012, the share of losses and recoveries from MH-LLC have exceeded the original carrying value of the investment in MH-LLC, and as such, the carrying value of the Company's equity investment in MH-LLC is $Nil. All future recoveries will be shown in profit or loss.

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

	2012	2011
Non-controlling interest, beginning of year	$ 7,312,564	$ 1,542,827
Additional capital contributions by Solitario	315,087	5,759,372
Share of foreign currency translation adjustment	(17,546)	17,574
Share of net loss in MH-LLC	(839)	(7,209)
Dilution of investment to 20% of MH-LLC	(7,609,266)	-
Non-controlling interest, end of year	$ -	$ 7,312,564

9. EXPLORATION AND EVALUATION ASSETS

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 a significantly influenced equity investment and records its share of profit or loss from MH-LLC (Note 8) and accordingly, the Company's interest in the Mount Hamilton property has been derecognized.

	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
Camp and field equipment	119,153
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
Derecognition of the Company's interest in MH-LLC	(10,304,749)
Balance, December 31, 2012	$ -

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

Mount Hamilton property, Nevada

The Mount Hamilton property is subject to minimum advance royalty payments of 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. Subsequent to December 31, 2012, the exercise period of the warrants were extended 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) to the Underlying Royalty Holder.

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 costs 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 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 MH-LLC enters into a gold stream agreement with Sandstorm that has an upfront deposit of no less than US$30 million. In addition, MH-LLC provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mount Hamilton project.

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

Mount Hamilton property, Nevada (cont'd…)

MH-LLC Distribution

On June 28, 2012, Ely and Solitario entered into an agreement whereby DHI US received US$500,000 from MH-LLC as a return on equity, which was subsequently paid to Solitario to repay the loan owing. Upon repayment of the loan owing, Solitario forgave the accrued interest of $17,723, which has been included in interest recoveries on the statements 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 (paid)
- 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.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

	2012	2011
Trade payables	$ 35,722	$ 350,140
Accrued liabilities	47,500	50,000
Due to related parties	37,971	949,068
Total	$ 121,193	$ 1,349,208

11. 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. 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.

11. OTHER LIABILITIES (cont'd...)

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 an additional 2,000,000 share purchase warrants to Augusta to purchase 2,000,000 common shares of the Company at $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 December 31, 2012, the remaining balance due is US$2,500,000.

The Acquisition Payment balance is being amortized using the effective interest rate method at an effective interest rate of 10.47% with the undernoted carrying amounts. For the year ended December 31, 2011, the interest is capitalized to exploration and evaluation assets. As of December 31, the Acquisition Payment balance was as follows:

	2012	2011
Payable to Augusta Resources Ltd.	$ 2,149,727	$ 2,721,494
Current portion	(746,175)	(762,750)
Other liabilities	$ 1,403,552	$ 1,958,744

12. SHARE CAPITAL AND RESERVES

(a) Authorized share capital

As at December 31, 2012, the authorized share capital of the Company is an unlimited number of common shares without par value.

(b) Issued share capital

During the year ended December 31, 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 that was awarded to the directors during the year ended December 31, 2010.

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

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

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 totalled $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.

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

Expiry Date	Exercise Price	2012	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 24, 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 December 31, 2012 is 4.07 (2011 - 5.05) years.

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

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

Stock option transactions are summarized as follows:

	2012			2011		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	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 year	5,650,000	$	0.22	5,850,000	$	0.23
Options exercisable, end of year	5,650,000	$	0.22	5,850,000	$	0.23

On July 30, 2012, the Company granted 200,000 stock options to a director vesting immediately and with a fair value of $18,295.

On January 4, 2011, the Company granted 800,000 and 1,500,000 stock options to directors and officers 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 and weighted average fair value:

	2012	2011
Risk-free interest rate	1.3%	2.0%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	108%	126%
Expected life in years	5	8.26
Weighted average fair value	$0.09	$0.21

The Company has estimated the forfeiture rate to be 0.00%.

Expected volatility was determined based on the historical movements in the closing price of the Company's common shares for a length of time equivalent to the expected life of each option.

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

(d) Warrants

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

Expiry Date	Exercise Price	2012	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
February 28, 2013*	$ 0.32	4,000,000	4,000,000
March 29, 2013**	$ 0.40	5,124,700	5,124,700
		9,124,700	11,942,866

* Subsequent to December 31, 2012, these warrants were extended for a period of two years.
** Subsequent to December 31, 2012, these warrants expired unexercised.

Share purchase warrant transactions are summarized as follows:

	December 31, 2012			December 31, 2011		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	11,942,866	$	0.34	8,879,166	$	0.28
Granted	-	$	-	5,124,700	$	0.40
Exercised	-	$	-	(2,061,000)	$	0.25
Expired	(2,818,166)	$	0.25	-	$	-
Balance, end of year	9,124,700	$	0.36	11,942,866	$	0.34

The fair value of warrants issued as compensation during the year ended December 31, 2012 was $Nil (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	0.0%
Expected stock price volatility	N/A	123%
Expected life in years	N/A	2

Expected volatility was determined based on the historical movements in the closing price of the Company's common shares for a length of time equivalent to the expected life of each warrant.

13. 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 did not pay post-employment benefits and long-term benefits to key management. The following compensation was paid to key management as of December 31:

	2012	2011
Short-term employment benefits	$ 701,743	$ 632,960
Share-based payments	18,295	453,080
Total	$ 720,038	$ 1,086,040

As at December 31, 2012, $39,691 (2011 - $949,068) is owing to related parties for consulting fees and a performance bonus to certain officers of $Nil (2011 - $600,000), which are included in accounts payable and accrued liabilities.

As at December 31, 2012, $665,190 is owing to related parties for deferred consulting fees that are not payable until January 1, 2016 and are included in the statement of financial position as deferred compensation. During the year ended December 31, 2012, the Company amended the terms of the payment of consulting fees so that the amount payable is now indexed to the DJIA, while in the prior year the payable ($325,441) was due on demand. The value of the deferred compensation fluctuates based on movements in the DJIA index and therefore it meets the definition of a derivative financial liability. During the year ended December 31, 2012, the Company recognized a fair value loss of $28,454 in profit or loss.

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

The Company entered into termination clause agreements with four of the Company’s officers whereby the officers are entitled to a cumulative amount of:

- $1,060,000 in the event they are terminated without cause; or
- $1,960,000 in the event there is a change of control.

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	2012	2011
Shares issued to settle debt	$ 600,000	$ -
Borrowing costs included in evaluation and exploration assets	$ -	$ 269,036
Common shares received from optioned evaluation and exploration assets	$ 71,250	$ 136,250
Exploration and evaluation assets costs included in accounts payable and accrued liabilities	$ -	$ 77,696

15. SEGMENT INFORMATION

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

	2012	2011
Non-current assets		
United States	$ -	$ 10,372,590

16. 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:

	2012	2011
Loss for the year	$ (1,371,836)	$ (1,840,780)
Canadian statutory tax rate	25.0%	26.5%
Income tax recovery computed at statutory rates	(342,959)	(487,807)
Foreign tax rates different from statutory rates	(31,631)	(34,988)
Change in timing differences	173,497	76,924
Rate difference between current and deferred taxes	2,688	8,916
Foreign exchange gains or losses	6,720	(9,437)
Permanent differences	5,724	131,223
Unused tax losses and tax offsets not recognized in tax asset	185,961	315,169
	$ -	$ -

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15% and the British Columbia provincial tax rate remained constant at 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25.0%. Effective April 1, 2013, the British Columbia corporate tax rate increased from 10% to 11%.

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

(b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generate future taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2012	2011
Non-capital losses	$ 12,329,000	$ 12,401,000
Capital losses	2,253,000	2,322,000
Share issue costs	2,000	3,000
Tax value over book value of equipment	2,000	2,000
Tax value over book value of mineral properties	3,709,000	6,167,000
Tax value over book value of investments	68,000	70,000
Unrecognized deductible temporary differences	$ 18,363,000	$ 20,965,000

As at December 31, 2012, the Company has non-capital losses carried forward of approximately $10,871,000 and $1,458,000 that may be applied against future income for tax purposes in Canada and the United States, respectively. The non-capital losses expire between 2014 and 2032.

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2012:

(a) On February 4, 2013, the Company acquired the Green Springs property in White Pine County, Nevada, for US$300,000 (paid) and $50,000 (paid) cash. The Green Springs property is subject to a 2% NSR.

(b) On January 16, 2013, the Company acquired a mining lease and a purchase option on two mining claims contiguous to the Green Springs property, known as the Cox Claims. The lease on the Cox claims has a term of 10 years with escalating advance royalty payments and a purchase option to acquire 100% of the property. The minimum advance royalty payments total US$222,500 (upon signing, US$10,500 was paid).

The Company has the option to purchase the claims for an amount equal to US$200,000 less the aggregate of the annual advance royalty payments made prior to the date of exercising the purchase option. Upon exercise of the purchase option, title to the Cox Claims will be taken subject to annual advance royalty payments of US$25,000 until commencement of commercial production, after which a 2% NSR will be payable, after recovery of the aggregate advance royalties. The Company has the option to buy-down 1% of the NSR for US$500,000.

In connection with the acquisition of the Cox Claims, the Company entered into an Agency Agreement with Urawest Energy LLC ("Urawest") to compensate Urawest for its involvement in the acquisition of the Cox Claims. Under the terms of the Agency Agreement, the Company will make total aggregate payments of US$47,500 to Urawest, payable in annual instalments over the 10 year term of the Cox Claims lease. In the event the Company exercises the purchase option to acquire 100% of the Cox Claims, any unpaid fees to Urawest as at the date of exercise shall be paid in full. Upon commencement of commercial production from the Cox Claims, the Company shall pay Urawest a 0.25% NSR.

(c) On January 30, 2013, the Company granted incentive stock options to certain directors and officers of the Company entitling them to purchase 450,000 common shares at a price of $0.14 per share for a period of 10 years that will vest 25% on each of the date of grant and three, six and nine months after the grant date, expiring January 30, 2023.

17. EVENTS AFTER THE REPORTING PERIOD (cont'd…)

(d) In January 2013, MH-LLC received the second and final payment of $4,000,000 from Sandstorm for the sale of the NSR royalty on its Mount Hamilton property.

(e) In January 2013, 4,000,000 warrants with an exercise price of $0.32 per warrant and an original expiry date of February 28, 2013 were extended for a period of two years. The exercise price remains the same and the new expiry date is February 28, 2015.

(f) On March 29, 2013, 5,124,700 warrants with an exercise price of $0.40 expired unexercised.

(g) On April 23, 2013, Solitario subscribed for 5,131,150 common shares of the Company for gross proceeds of $513,115.