

ELY GOLD & MINERALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

Suite 480 – 789 West Pender St, Vancouver, BC V6C 1H2

1.1 INTRODUCTION

Set out below is a review of the activities, financial performance and financial position of Ely Gold & Minerals Inc. (“Ely”, or the “Company”) and its subsidiaries for the years ended December 31, 2012 and 2011. The discussion below should be read in conjunction with the Company’s December 31, 2012 audited consolidated financial statements and related notes. All dollar figures included in the following Management Discussion and Analysis (“MD&A”) are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at April 24, 2013.

The Company is a reporting issuer in the provinces of British Columbia and Alberta in Canada and is listed on the TSX Venture Exchange (“Exchange”) under the symbol “ELY”.

Additional information related to the Company is available on SEDAR at www.sedar.com. The Company’s website is at <http://www.elygoldandminerals.com/s/Home.asp>

1.2 FORWARD LOOKING STATEMENTS

This MD&A contains “forward-looking statements” within the meaning of applicable Canadian securities legislation, which include all statements, other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future. These include, without limitation:

- the Company’s anticipated results and developments in the Company’s operations in future periods
- planned exploration and development of its mineral properties
- planned expenditures and budgets
- evaluation of the potential impact of future accounting changes
- estimates concerning share-based payment and carrying value of properties; and
- other matters that may occur in the future.

These statements relate to analyses and other information that are based on expectations of future performance and planned work programs.

Statements concerning mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the related property is developed.

With respect to forward-looking statements and information contained herein, the Company has made a number of assumptions with respect to, including among other things, the price of gold and other metals, economic and political conditions, and continuity of operations. Although the Company believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that forward-looking statements or information contained or incorporated by reference herein will prove to be accurate.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- fluctuations in mineral prices;
- the Company's dependence on a limited number of mineral projects;
- the nature of mineral exploration and mining and the uncertain commercial viability of certain mineral deposits;
- the Company's lack of operating revenues;
- the Company's ability to obtain necessary financing to fund the development of its mineral properties or the completion of further exploration programs;
- jurisdiction operating risks which can over time include changes in political, economic, regulatory and taxation regimes;
- governmental regulations and specifically the ability to obtain necessary licenses and permits;
- risks related to the Company's mineral properties being subject to prior unregistered agreements, transfers, or claims and other defects in title;
- fluctuations in the currency markets;
- changes in environmental laws and regulations which may increase costs of doing business and restrict the Company's operations;
- risks related to the Company's dependence on key personnel; and
- estimates used in the Company's consolidated financial statements proving to be incorrect.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company's forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

1.3 DESCRIPTION OF BUSINESS

The Company's registered office is Suite 480 – 789 West Pender St, Vancouver, British Columbia, Canada, V6C 1H2.

The Company's operations are conducted through Ely and its wholly-owned subsidiaries, DHI Minerals Ltd. ("DHI") and its subsidiary DHI Minerals (US) Ltd. ("DHI US").

The Company is an exploration stage natural resource company engaged in the evaluation, acquisition, exploration and development of natural resource projects. The Company is currently focused on gold projects in North America.

The recoverability of costs capitalized to mineral properties and the Company's future financial success is dependent upon the extent to which economic gold mineralized bodies can develop to producing entities. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors for advancing the Company's projects to production are dependant on outside factors; such as, obtaining the necessary rights and permitting which need to be granted from certain local and governmental agencies located in the jurisdictions that the Company operates in. Additional risk factors that may affect the financial success of the Company and it's consolidated financial statements and the risk factors related to mineral exploration and development are set out under the heading "Risks and Uncertainties" listed below.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the

success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. The Company is not aware of any seasonality in the business that may have a material effect upon its financial condition, other than those normally encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

1.4 HIGHLIGHTS

- On February 22, 2012, Mount Hamilton Limited Liability Company ("MH-LLC"), the Company's former subsidiary, completed a bankable feasibility study ("BFS") on the Mount Hamilton Project and accordingly, Solitario Exploration & Royalty Corp ("Solitario") has earned an additional 70% interest in MH-LLC, pursuant to the Operating Agreement ("MH-LLC Agreement") for a total interest of 80%, and can no longer opt out of any future required payments and will be obligated to make any unpaid payments of cash and common shares to DHI US, any unpaid payments to the Underlying Royalty Holders and any uncompleted additional subscriptions due to Ely by the due dates described in the original operating agreement. As a result, the Company has included all future cash and share payments (\$1,240,161) as receivables as at December 31, 2012.
- As a result of completing the BFS, Solitario's interest in MH-LLC increased to 80% and Ely's interest decreased to 20% resulting in the Company no longer consolidating MH-LLC. Ely 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.
- In February 2012 the Company received US\$150,000 and 25,000 common shares in the capital stock of Solitario as part of the requirements under the MH LLC Agreement.
- In March 2012, the Company issued 2,400,000 common shares at a value of \$0.25 per common share to settle \$600,000 in debt owed to certain directors.
- On May 30, 2012, the Company received US\$750,000 from Solitario as part of the requirements under the MH-LLC agreement.
- On June 1, 2012, the Company made a payment of US\$750,000 to Augusta Resources Ltd. ("Augusta") as part of its obligation for the purchase of DHI.
- 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 project for US\$10 million. US\$6 million was paid upon signing and the remaining US\$4 million was paid to MH-LLC in January 2013.
- On June 28, 2012, MH-LLC distributed US\$2,500,000 to its partners. DHI US received US\$500,000 of the disbursement, which was used to repay the loan payable to Solitario for its share of the 2011 royalty purchase.
- In August 2012, the Company received US\$150,000 and 25,000 common shares in the capital stock of Solitario as part of the requirements under the MH-LLC Agreement.
- As of December 31, 2012, the Company had cash of \$1,645,595 and consolidated working capital of \$1,601,322..

1.5 PROJECT UPDATES AND ACQUISITION

i. Acquisition of DHI Minerals Ltd. (“DHI”)

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 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 and a fair value of \$2,828,661. The amended payments for the acquisition are without interest and are to be made as follows:

Upon signing	US \$1,625,000 (Paid – \$1,592,175)
February 28, 2009	\$1,000,000 (Paid – \$1,247,520)
June 1, 2010	250,000 (Paid - \$266,353)
June 1, 2011	500,000 (Paid – \$488,043)
June 1, 2012	750,000 (Paid – \$757,380)
June 1, 2013	750,000
June 1, 2014	750,000
June 1, 2015	1,000,000
	<hr/>
	US \$6,625,000

The amendment of the agreement on November 16, 2009, extended the loan repayments 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, which 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 after acquired assets of DHI and DHI US. As at December 31, 2012, the remaining balance due is US\$2,500,000.

ii. Collaboration with Solitario

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 Letter of Intent (“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);

- (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 Exchange 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 Exchange) 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.

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 (issued).
- (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.

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

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' 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.

iii. Mineral properties

Mount Hamilton Property

The Mount Hamilton property is a 525 acre property located at the southern end of the Battle Mountain Gold Trend, 65 kilometres west of the town of Ely, Nevada. The property contains both precious and base metal mineralization that occurs within a gently folded sequence of Cambrian aged sedimentary rocks. The property was developed by Rea Gold, a Vancouver based company that mined the Seligman gold deposit from 1995-1997.

The current focus on the Mt. Hamilton property is gold-silver mineralization that was first outlined in programs dating back to the late 1970's. Historical and recent exploration by Ely in 2008 and Solitario in 2011-2012 have outlined two near-surface, contiguous deposits, Centennial and Seligman. These deposits gold-silver resources that have been the subject of recent reserve/resource calculations carried out by SRK Consulting US Inc. for MH-LLC, results of which are tabulated below.

Centennial Gold-Silver Deposit Mineral Reserve Statement

Reserve Category	Tons (millions)	Gold Grade		Silver Grade*		Contained Gold (oz)	Contained Silver (oz)
		Oz/Ton	g/Tonne	Oz/Ton	g/Tonne		
Proven	0.923	0.032	1.10	0.155	5.31	29,300	142,700
Probable	21.604	0.021	0.72	0.134	4.59	457,800	2,884,300
Prov.+Probable	22.527	0.022	0.75	0.136	4.66	487,100	3,028,200

Seligman Gold-Silver Mineral Resource Statement

Resource Category	Tons Millions	Gold Grade		Silver Grade*		AuEq Oz/ Ton	Contained Ounces		
		Oz/Ton	g/Tonne	Oz/Ton	g/Tonne		Gold	Silver	AuEq
Indicated	6.96	0.022	0.76	0.097	3.34	0.024	154,388	676,665	166,691
Inferred	3.77	0.021	0.71	0.144	4.94	0.023	78,044	543,671	87,929

The addition of the Seligman Resource represents nearly a 29% increase in previously reported in-pit Measured and Indicated Resources for the Mt. Hamilton project and a 134% increase in Inferred Resources.

A second mineralized zone was identified on the Mount Hamilton property during the Philips Petroleum Corporation exploration of the Mount Hamilton property. This zone lies above and adjacent to the gold zone described above and consists of molybdenum, tungsten and copper mineralization. A study completed by the Ralph Parsons Company (now Fluor Corp.) in June 1978 for Philips Petroleum Corporation estimated the following non 43-101 compliant historical resource:

Zone	Tons	MoS2 (%)	Tungsten (%)	Copper (%)
Westside	4,199,300	0.52	0.37	0.6
Eastside	2,024,800		0.28	

The Company has not done the work necessary to verify the classification of the resource and is not treating the resource estimates as a NI 43-101 defined resource verified by a Qualified Person and therefore should not be relied upon by investors.

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.

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

Upon commencement of commercial production, a base rate of 3% 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 February 22, 2010 and April 28, 2010, the Company further negotiated amendments to the Mount Hamilton lease to reduce the NSR under the original agreement. If the Company exercises the First Royalty Reduction Option (noted above) and reduces the NSR to 6.5%, it will have the option to purchase an additional 1.75% NSR for a further \$1,500,000 payment at any time prior to the date commercial production commences ("Second Royalty Reduction Option"), reducing the NSR to 4.75%. Upon exercise of the Second Royalty Reduction Option, the Company will have the option to purchase an additional 1.75% NSR for a further \$1,500,000 payment at any time prior to the date commercial production commences ("Third Royalty Reduction Option"), reducing the NSR to 3.0%.

In addition, 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. 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 Exchange to extend the time period within which they may be exercised to February 28, 2015.

On May 27, 2011, MH-LLC entered in to an agreement to buy-down the NSR on the Mount Hamilton project ("Purchase Agreement"). Pursuant to the Purchase 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. MH-LLC purchased the royalty buy-down for US\$2.52 million, (\$2.56 million).

Solitario contributed the entire purchase price of the royalty buy-down and loaned DHI US its 20%, US\$504,000, proportionate share. The loan payable by DHI US to Solitario will bear interest at 6% per annum and will be repaid from DHI US's future production proceeds. The entire purchase price of the royalty buy-down has been included in mineral properties as acquisition costs.

On February 22, 2012 Solitario announced positive Feasibility Study results on the Centennial Deposit. With the completion of this Feasibility Study, Solitario will hold an 80% interest in Mt. Hamilton LLC. The Feasibility Study was prepared SRK Consulting (U.S.) Inc. (SRK). Highlights from the Feasibility Study are as follows:

- Base Case: Gold Price-\$1,323; Silver Price- \$25.34
- Production Rate: 8,500 tons ore per day
- Mine Life: 8.0 years
- Average Gold Recovery: 79% (70% of recoverable gold in the first 30 days)
- Average Silver Recovery: 90% of soluble silver (~ 36% of total contained silver)
- Life of mine strip ratio: 2.4:1.0 (waste:ore)
- Initial Capital Cost: \$71.9 M (including \$6.3 M contingency)
- Sustaining Capital: \$35.3 M (including \$4.3 M contingency and \$10.3 M end-of-mine closure costs)
- Working Capital: \$7.1 M
- Underlying NSR-Royalty: 1%
- Cash Costs per Gold-Equivalent Ounce Recovered: \$535
- Average Annual Gold Production: 48,000 ounces
- Average Annual Silver Production: 330,000 ounces
- Average Annual Gold-Equivalent Production: 54,000 ounces (at a 52:1 silver to gold ratio)

The economic analysis in the Feasibility Study assumed a declining price curve for gold and silver. Realized gold/silver prices were set at \$1,600/\$35.45 per ounce for the first year of production, \$1,420/\$28.25 for the second year, and \$1,280/\$23.90 per ounce for all subsequent years. These prices are based on the 12-month, 24-month and 36-month trailing average of gold and silver prices, respectively. This declining gold price scenario results in an average life-of mine price of \$1,323 per ounce for gold and \$25.34 per ounce for silver.

Mineral Reserve Statement, Centennial Gold-Silver Deposit, SRK Consulting Inc.:

Reserve Category	Tons (000's)	Gold Grade		Silver Grade*		Contained Gold (oz.)	Contained Silver (oz.)
		Oz./Ton	g/Tonne	Oz./Ton	g/Tonne		
Proven	0.923	0.032	1.1	0.15	5.31	29,300	142,700
Probable	21.604	0.021	0.72	0.134	4.59	457,800	2,884,300
Prov. & Prob.	22.527	0.022	0.75	0.136	4.66	487,100	3,028,200

*Reported silver grade is cyanide soluble

The Feasibility Study resource and reserve estimations demonstrate a potential to increase the size of the existing Centennial deposit through step-out exploration drilling around the east and southeast margins of the current pit configuration. This mineralization falls entirely within a pit design based on \$1,600/oz. gold and \$40/oz. silver and is situated immediately adjacent to the reserve pit. Approximately 2.6 million tons of Indicated Resources grading 0.017 oz/t gold (45.3 koz of gold) and 0.153 oz/t silver (397.6 koz of silver) and 2.8 million tons of Inferred Resource grading 0.018 oz/t gold (50.2 koz of gold) and 0.080 oz/t silver (223.5 oz of silver) above a 0.006 oz/t gold cut-off have been identified outside of the reserve pit, but within the resource envelope (Whittle™ shell). Drilling is planned in these areas with the objective to upgrade the mineralization to Measured and Indicated Resources.

A new NI-43-101 compliant resource estimate was completed on the Seligman gold and silver deposit situated roughly 1,500 feet north of the Centennial deposit which contains previously reported reserves and resources. The study was prepared on behalf of Solitario by SRK Consulting (U.S.) Inc. ("SRK") and serves to update the previously reported (February 22, 2012) Mt. Hamilton Feasibility Study.

The Seligman resource estimate was constrained by an optimized pit using a gold price of \$1,500 per ounce of gold and \$20.00 per ounce of silver. At Seligman, SRK estimated an in-pit Indicated Resource containing 166,691 ounces of gold equivalent ("AuEq"), with an additional in-pit Inferred Resource totaling 87,929 AuEq ounces. This represents nearly a 29% increase in previously reported in-pit Measured and Indicated Resources for the Mt. Hamilton project and a 134% increase in Inferred Resources. The table below provides greater detail to the recently completed Seligman in-pit resource estimate.

The Seligman resource estimate was based on the pre-existing Mt Hamilton database consisting of 531 drill holes. The data was verified/validated by SRK in compliance with NI-43-101 requirements.

The Seligman mineralization was mined for several years in the mid-1990's, but mining ceased in 1997 due to low gold prices. Seligman mineralization, if mined, would require significantly less pre-stripping of waste than the Centennial ore body situated immediately to the south. This could advance initial production by at least six months and reduce initial capital costs by \$5.0 to \$7.0 million, compared to the Centennial Feasibility Study mining plan that did not include Seligman mineralization.

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.

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.

Shell/Monte Cristo Properties

The Shell and Monte Cristo properties are located southwest of the Mount Hamilton project, on claims that are contiguous with the Mount Hamilton property. The Shell property was originally explored in the late 1970's and early 1980's by Union Carbide Corporation for its gold, molybdenum, and tungsten potential. Mineralization is localized in a brecciated fault contact between shaley limestones above, and underlying calcareous shales of Cambrian age, near the intrusive Monte Cristo stock.

Drilling by Union Carbide identified mineralization from two separate zones that are separated by between 20 to 40 feet and remain open in all directions. A molybdenum rich zone lies above a gold rich zone. Union Carbide estimated resources in 1981 for these two zones as follows:

Zone	Tons	MoS2 (%)	Au (ozs/ton)	Tungsten (%)
Molybdenum	1,151,774	1.20	0.01	0.12
Gold	499,919	0.17	0.24	0.17

This resource estimate is a non 43-101 compliant historical resource; the Company has not done the work necessary to verify the classification of the resource and is not treating the resource estimates as a NI 43-101 defined resource verified by a Qualified Person and therefore should not be relied upon by investors.

The Shell deposit is located near the Mount Hamilton property and is subject to minimum advance royalty payments starting with US\$80,000 payable on June 6, 2006 and increasing by US\$20,000 per annum until production commences (\$156,789 paid in 2009).

The Shell property was transferred in MH-LLC during the year ended December 31, 2011 and MH-LLC has assumed all liabilities related to the Shell property.

The Monte Cristo property was included as part of the Company's initial contribution into MH-LLC.

Great American, Nevada

During the year ended December 31, 2011, MH-LLC entered into an option agreement with Great American Minerals, Inc. to acquire 100% of the Great American claims 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.

Green Springs, Nevada

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.

Green Springs covers an area of 1498 acres and lies approximately 5 miles south of Ely Gold's Mt Hamilton project which is currently in the permitting process for mine development. The Mt Hamilton Project is being managed by Solitario under a joint venture agreement with Ely Gold whereby Solitario owns 80% and Ely Gold owns 20%. The Green Springs property is located 14 miles southeast of Midway Gold's ("Midway") Pan Deposit which is in the permitting process for mine development and 7 miles southeast of Midway's Goldrock project and 10 miles northwest of Pilot Gold's Griffon project.

Previous work on the Green Springs property was conducted by U.S. Minerals Exploration Company ("USMX") during the 1980's. The work outlined six zones of gold mineralization from approximately 650 reverse circulation drill holes. Using a cut-off grade of 0.7g/t gold, USMX developed and produced from three of these mineralized zones. Historic production records, from 1988-1990, indicate that 1.1 million metric tons of ore averaging 2.1 g/t gold were mined by open pit mining and heap leaching, and gold recoveries of approximately 80% were obtained from a relatively coarse crush. Very little exploration work was done on peripheral targets after the initial discoveries by USMX. However in 2004-2008, previous owners conducted extensive ground sampling, mapping and a CSMAT geophysical survey. The USMX figures are historical figures obtained from a 1991 report by the Geological Society of Nevada. However, a qualified person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves and the issuer is not treating the historical estimate as current mineral resources or mineral reserves. Therefore, the USMX figures should not be relied upon by investors.

At the Green Springs project Ely Gold owns 76 unpatented lode mining claims and has an option to acquire a 100% interest in a further 2 unpatented lode mining claims that altogether cover an area of 1,498 acres. The property hosts Carlin style, epithermal, disseminated, sediment hosted gold-silver mineralization. The principal target horizon at Green Springs in the 1980's was the Lower Chainman Shale and Upper Joana Limestone similar to Midway's Goldrock project. These units lie stratigraphically above the Pilot Shale, a primary host to Carlin style gold mineralization elsewhere in the region, including Midway's Pan deposit.

The Company will initially focus on compilation of historical data to provide direction to define targets proximal to the historic pits as well as new exploration targeting the Pilot Shale. To that end, SRK Consulting has been retained to compile, review and digitize historic data, and create a modern geologic and mineralization model for the Property, to ultimately produce a National Instrument 43-101 Geological Report with recommendations for future exploration and development. In addition, Enviroscientists, Inc. has been retained by the Company to coordinate the permitting and environmental requirements for exploration and development on the property.

Cox Claims, Nevada

On January 16, 2013, the Company acquired a mining lease and a 100% 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 100% purchase option. 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 installments 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.

1.6 RESULTS OF OPERATIONS

Twelve months ended December 31, 2012, compared to the twelve months ended December 31, 2011.

The Company recorded a net loss of \$1,371,836 (\$0.02 loss per common share) for the twelve months ended December 31, 2012 (the "current period") compared to a net loss of \$1,840,780 (\$0.03 loss per common share) during the twelve months ended December 31, 2011 (the "comparative period"), a decrease of \$468,944, as explained in the following paragraphs.

- Consulting fees were \$29,725 higher in the current period (\$805,726) when compared to the comparative period (\$776,001). Although the number of consultants remained unchanged from the prior year a fluctuation in consulting fees can be expected as some fees are paid in US dollars and are subject to fluctuation in foreign exchange rates.
- Professional fees were \$146,392 lower in the current period (\$105,612) when compared to the comparative period (\$252,004) which mainly reflects a decrease in legal fees as a result of the comparative period incurring additional fees as part of the Company's due diligence in assessing potential asset acquisitions.
- Office and administration expenses were \$21,313 lower in the current period (\$27,195) when compared to the comparative period (\$48,508) reflecting a Company wide decrease in office and administrative expenses.
- Travel and promotion were \$13,145 lower in the current period (\$54,976) when compared to the comparative period (\$68,121) reflecting a decrease in the level of travel by the Company's management and consultants in the current period when compared to the comparative period.
- Share-based payments were \$472,724 lower in the current period (\$18,295) when compared to the comparative period (\$491,019) reflecting fewer options being granted and having vested in the current period when compared to the number of options that were granted and vested in the comparative period.
- Transfer agent and filing fees were \$11,288 lower in the current period (\$26,356) when compared to the comparative period (\$37,644) reflecting a current period decrease in the number of submissions to the TSX-V that required regulatory fees.
- Loss on sale of subsidiary was \$387,871 higher in the current period (\$387,871) when compared to the comparative period (\$nil), which was a result of deconsolidating MH-LLC once the Company's equity interest in MH-LLC was reduced to 20% on February 22, 2012.
- Impairment of marketable securities was \$134,944 higher in the current period (\$134,944) when compared to the comparative period (\$nil). The impairment in marketable securities was a result of management assessing that marketable securities have experienced a prolonged decline in fair value; as a result, the impairment \$134,944 was transferred from accumulated other comprehensive loss and recognized in net loss.

- Excess on distribution from equity investment was \$212,492 higher in the current period (\$212,492) when compared to the comparative period (\$nil), arising from the Company's share of losses of MH-LLC for the period from February 22, 2012 to December 31, 2012 and distribution by MH-LLC.
- Gain/loss arising from foreign exchange was \$105,831 higher in the current period (Gain-\$26,905) when compared to the comparative period (Loss-\$78,926). Significant fluctuations in foreign exchange can be expected as the Company currently has a loan payable of US\$2.5 million that gets re-valued as at the balance sheet date every period, which can result in significant fluctuations in the gain/loss on foreign currency.
- Interest income was \$64,006 higher in the current period (\$70,789) when compared to the comparative period (\$6,783), arising from the inclusion in the current period of the accretion on the consideration receivable from Solitario as a result of Solitario earning their 80% in MH-LLC during the current period.
- Loss on equity investment was \$58,408 higher in the current period (\$58,408) when compared to the comparative period (\$nil), arising from the Company including its share of losses of MH-LLC for the period from February 22, 2012 to December 31, 2012 as a result of the Company accounting for its investment in MH-LL as an equity investment since the date that Solitario earned its 80% interest in MH-LLC.
- Loss on derivative liability was \$28,454 higher in the current period (\$28,454) when compared to the comparative period (\$nil), arising from the Company adopting the policy of indexing the deferred consulting fees against the Dow Jones Industrial Average in the current period.
- Loss on fair value of receivables was \$20,000 higher in the current period (\$20,000) when compared to the comparative period (\$nil), arising from the Company recognizing the change in fair value of the Solitario common shares component of the consideration receivable from Solitario in the current period.

1.7 FOURTH QUARTER

- Consulting fees were \$194,554.
- Loss on impairment of marketable securities was \$134,944.
- Interest income was \$60,360
- Loss on derivative financial liability was \$28,454.
- Professional fees were \$16,384.
- Rent was \$4,800.

1.8 SELECTED ANNUAL INFORMATION

The following table summarizes information regarding the Company's operations on a yearly basis for the last three years in accordance with IFRS and Canadian GAAP as noted. The Company's reporting currency is Canadian dollars.

For the years ended December 31

	2012	2011	2010
Total revenues (Interest & other income)	70,789	6,783	-
Income/(Loss) for the year	(\$1,371,836)	(\$1,840,780)	(\$9,669,218)
Income/(Loss) for the year per share	(\$0.02)	(\$0.03)	(\$0.23)
Total assets	\$3,072,290	\$12,752,120	\$4,482,077
Total long-term financial liabilities	\$2,068,742	\$2,489,343	\$2,389,776

1.9 SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table summarizes selected information from the Company's unaudited consolidated financial statements, prepared in accordance with IFRS, for the last eight quarters.

For the quarters ended

	Dec 31 2012	Sept 30 2012	June 30 2012	Mar 31 2012
Total revenues (Interest & other income)	\$60,360	\$1,857	\$4,495	\$4,077
Loss for the quarter	(\$542,141)	(\$298,927)	(\$248,809)	(\$238,420)
Loss per share	(\$0.005)	(\$0.005)	(\$0.005)	(\$0.005)

For the quarters ended

	Dec 31 2011	Sept 30 2011	June 30 2011	Mar 31 2011
Total revenues (Interest & other income)	2,448	4,284	51	-
Loss for the quarter	(\$326,084)	(\$786,156)	(\$353,448)	(\$375,092)
Loss per share	(\$0.01)	(\$0.01)	(\$0.005)	(\$0.01)

The Company earns interest income from its cash and cash equivalents, which will vary from period to period depending on their relative balances.

In addition, the cash component of the consideration receivable from Solitario was originally recorded at its net present value as at February 22, 2012 and is subsequently recognized at amortized cost and is being accreted up to its face value with changes in carrying value recognized as interest income (2012 - \$58,380; 2011 \$nil).

1.10 LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company had cash of \$1,645,595 and consolidated working capital of \$1,601,322. (December 31, 2011 – \$267,572), which is sufficient working capital to fund its operations for the next twelve months.

The Company's cash and cash equivalents are highly liquid and held at a major Canadian financial institution.

	Increase (Decrease) in Cash & Cash Equivalents for the Year Ended December 31	
	2012	2011
Operating activities	\$ (860,489)	(409,465)
Investing activities	286,698	(6,087,409)
Financing activities	(36,718)	8,556,440
Total Change in Cash	(610,509)	2,059,566
Cash and Cash Equivalents, Beginning of the Year	2,256,104	196,538
Cash and Cash Equivalents, End of the Year	\$ 1,645,595	2,256,104

Operating Activities

Cash used in operating activities primarily consist of general and administrative expenditures. The \$451,024 increase in the use of cash for operating activities for the year ended December 31, 2012 over the prior year is mainly attributable to the increase in G&A expenditures.

Investing Activities

Cash from investing activities during the year ended December 31, 2012 is the net of the cash disbursements received from MH-LLC and the mineral property expenditures that were incurred on the Mount Hamilton project for the period from January 1, 2012 up to the time that Solitario earned their 80% interest in MH-LLC, which was February 22, 2012. Investing activities in the prior year primarily consist of mineral property expenditures that were incurred on the Mount Hamilton project.

Financing Activities

The Company currently has no revenues from operations and has been dependent on equity financing to fund its operations. In the year ended December 31, 2012 the Company received \$315,087 from Solitario per the MH-LLC Agreement and an additional US\$750,000 from Solitario, which was used to make the June 1, 2012 payment to Augusta. In the prior year, the Company completed a private placement for net proceeds of \$2,945,076, received contributions from Solitario of \$5,776,946, mainly in the form of Solitario's contributions to MH-LLC in order to earn their 80% interest in MH-LLC, and an additional US\$500,000, which was used to make the June 1, 2011 payment to Augusta.

Management has been successful in accessing the equity markets in prior years, but there is no assurance that such sources will be available, on acceptable terms, or at all in the future. Factors which could impact management's ability to access the equity markets include the state of capital markets, market prices for natural resources and the non-viability of the projects.

1.11 TRANSACTIONS WITH RELATED PARTIES

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:

	December 31, 2012	December 31, 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 and 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.

1.12 SHARE CAPITAL AND DISCLOSURE OF OUTSTANDING SHARE DATA

At December 31, 2012 the authorized share capital was an unlimited number of common shares and there were 61,610,245 common shares issued and outstanding. As at the date of this MD&A the Company had 61,610,245 common shares issued and outstanding.

Stock Options and Warrants

The following summarizes information on the number of stock options outstanding at December 31, 2012:

Expiry Date	Exercise Price	Number of options
February 26, 2015	\$ 0.50	600,000
June 4, 2015	\$ 0.20	750,000
July 7, 2015	\$ 0.15	1,000,000
September 1, 2015	\$ 0.15	1,000,000
January 5, 2016	\$ 0.25	800,000
July 24, 2017	\$0.14	200,000
September 22, 2021	\$ 0.20	1,300,000
Total		5,650,000

The following summarizes information on the number of warrants outstanding at December 31, 2012:

Expiry Date	Exercise Price	Number of warrants
February 28, 2013*	\$ 0.32	4,000,000
March 29, 2013**	\$ 0.40	5,124,700
		9,124,700

* In January 2013, these warrants were extended for a period of two years.

** On March 29, 2013, these warrants expired unexercised.

Outstanding share data

As at the date of this report, the Company's fully diluted shares outstanding is as follows:

Common shares	66,741,395
Options	6,100,000
Warrants	4,000,000
Fully diluted shares outstanding	76,841,395

1.13 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.14 PROPOSED TRANSACTIONS

Northern Star Mining

The Company entered into two agreements, as amended on June 4, 2011 and June 24, 2011, with the holders of the senior secured notes (the "Secured Notes") issued by Northern Star Mining Corp. ("NSM") in order to obtain an interest in the NSM assets that are held as security against the Secured Notes. NSM declared bankruptcy in 2010. The agreements gave the Company the right, but no obligation, to acquire up to \$28,681,669, being 65% of the \$41,093,488 outstanding Secured Notes, ten business days following the date on which title to the NSM assets was vested to the Secured Note holders by way of a Court order.

During 2012, bids were solicited by the Receiver in the bankruptcy proceedings for all the assets and property. The bidding was concluded in the fourth quarter of 2012 and the holders of the Secured Notes were determined to be the high bid for all the assets. Due to changes in the equity markets, the Company has notified the holders of the Secured Notes that it will not be exercising any of its options and has no interest in acquiring any of the NSM assets at this time.

1.15 CONTRACTUAL OBLIGATIONS

On February 22, 2012, MH-LLC completed a BFS and accordingly Solitario has earned an 80% interest in MH-LLC. Per the Operating Agreement, once Solitario has completed the BFS, all costs will be shared by Solitario and DHI US pro-rata based on the equity interest owned.

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

As at December 31, 2012, the Company has no liability outstanding to Solitario for its' pro-rata share of post-BFS expenditures.

The Company has no commitments, material capital lease agreements and no material long term obligations other than the above.

1.16 RISKS AND UNCERTAINTIES

The Company is in the mineral exploration and development business and has not commenced commercial operations and has no assets other than cash and mineral property agreements under option. It has no history of earnings, and it is not expected to generate earnings or pay dividends in the foreseeable future.

Precious and Base Metal Price Fluctuations

The profitability of the precious and base metal operations in which the Company has an interest will be significantly affected by changes in the market prices of precious and base metals. Prices for precious and base metals fluctuate on a daily basis, have historically been subject to wide fluctuations and are affected by numerous factors beyond the control of the Company such as the level of interest rates, the rate of inflation, central

bank transactions, world supply of the precious and base metals, foreign currency exchange rates, international investments, monetary systems, speculative activities, international economic conditions and political developments. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. Declining market prices for these metals could materially adversely affect the Company's operations and profitability.

Fluctuations in the Price of Consumed Commodities

Prices and availability of commodities consumed or used in connection with exploration, development and mining, such as natural gas, diesel, oil, electricity, cyanide and other reagents fluctuate affecting the costs of exploration in our operational areas. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on our operating costs or the timing and costs of various projects.

Foreign Exchange Rate Fluctuations

Operations may be subject to foreign currency exchange fluctuations. The Company to-date has raised its funds through equity issuances which are priced in Canadian dollars. DHI US and MH-LLC operate in the United States and incur exploration and administration expenditures denominated in United States dollars. As a result, the Company may suffer losses due to adverse foreign currency fluctuations.

Competitive Conditions

Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Company may be unable to either compete for or acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will be able to acquire any interest in additional projects that would yield reserves or results for commercial mining operations.

Operating Hazards and Risks

Exploration activities may generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, the following: environmental hazards, industrial accidents, third party accidents, unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land-slides, acts of God, periodic interruptions due to inclement or hazardous weather conditions, earthquakes, war, rebellion, revolution, delays in transportation, inaccessibility to property, restrictions of courts and/or government authorities, other restrictive matters beyond the reasonable control of the Company, and the inability to obtain suitable or adequate machinery, equipment or labour and other risks involved in the normal course of exploration activities.

Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, delayed production and resultant losses, increased production costs, asset write downs, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company's financial position.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. The lack of availability of acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of the Company's projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of the Company's projects will be commenced or completed on a timely basis, if at all.

Exploration and Development

There is no assurance given by the Company that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body or yield new reserves to replace or expand current reserves.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At this time, none of the Company's properties have any defined ore-bodies with proven reserves.

The economics of developing silver, gold and other mineral properties are affected by many factors including capital and operating costs, variations of the tonnage and grade of ore mined, fluctuating mineral markets, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the prices of silver, gold or other minerals produced, the Company may determine that it is impractical to commence or continue commercial production. Substantial expenditures are required to discover an ore-body, to establish reserves, to identify the appropriate metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot

be accurately foreseen or predicted, such as market fluctuations, conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for an exploitation concession. There can be no guarantee that such a concession will be granted. Unsuccessful exploration or development programs could have a material adverse impact on the Company's operations and profitability.

Business Strategy

As part of the Company's business strategy, it has sought and will continue to seek new exploration and development opportunities in the mining industry. In pursuit of such opportunities, it may fail to select appropriate acquisition candidates, negotiate appropriate acquisition terms, conduct sufficient due diligence to determine all related liabilities or to negotiate favourable financing terms. The Company may encounter difficulties in transitioning the business, including issues with the integration of the acquired businesses or its personnel into the Company. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favourable terms, or that any acquisitions or business arrangements completed will ultimately benefit its business.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that any future changes in environmental regulation, will not adversely affect the Company's operations. The costs of compliance with changes in government regulations have the potential to reduce the profitability of future operations. Environmental hazards that may have been caused by previous or existing owners or operators may exist on the Company's mineral properties, but are unknown to the Company at the present.

Title to Assets

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore, the precise area and location of such claims may be in doubt. The Company's claims may be subject to prior unregistered agreements or transfers, or native land claims, and title may be affected by unidentified or unknown defects. The Company has conducted as thorough an investigation as possible on the title of properties that it has acquired or will be acquiring to be certain that there are no other claims or agreements that could affect its title to the concessions or claims. If title to the Company's properties is disputed, it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

Uncertainty of Funding

The Company has limited financial resources, and the mineral claims in which the Company has an interest or an option to acquire an interest require financial expenditures to be made by the Company. There can be no assurance that adequate funding will be available to the Company so as to exercise its option or to maintain its interests once those options have been exercised. Further exploration work and development of the properties in which the Company has an interest or option to acquire depend upon the Company's ability to obtain financing through joint venturing of projects, debt financing or equity financing or other means. Failure to obtain financing on a timely basis could cause the Company to forfeit all or parts of its interests in mineral properties or reduce or terminate its operations.

Agreements with Other Parties

The Company has entered into agreements with other parties relating to the exploration, development and production of its properties. The Company may in the future, be unable to meet its share of costs incurred under agreements to which it is a party, and the Company may have its interest in the properties subject to such agreements reduced as a result. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the costs required to complete recommended programs.

Potential Conflicts of Interest

The directors and officers of the Company may serve as directors and/or officers of other public and private companies, and may devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of British Columbia, Canada, require the directors and officers to act honestly,

in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, directors and officers of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger properties and programs; (ii) acquire an interest in a greater number of properties and programs; and (iii) reduce their financial exposure to any one property or program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors and officers of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Third Party Reliance

The Company's rights to acquire interests in certain mineral properties may have been granted by third parties who themselves may hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

Assurance on Financial Statements

We prepare our financial reports in accordance with accounting policies and methods prescribed by IFRS and previously under pre-changeover Canadian GAAP. In the preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies and practices are described in more detail in the notes to our consolidated financial statements for the year ended December 31, 2011. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, we have implemented and continue to analyze our internal control systems for financial reporting. Although we believe our financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, we cannot provide absolute assurance in that regard.

General Economic Conditions

The unprecedented events in global financial markets during the last few years have had a profound effect on the global economy. Many industries, including the gold and silver mining industry, are affected by these market conditions. Some of the key effects of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability.

Substantial Volatility of Share Price

In recent years, the securities markets have experienced a high level of price and volume volatility, and the securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The price of the

Company's common shares is also likely to be significantly affected by short-term changes in mineral prices or in the Company's financial condition or results of operations as reflected in its quarterly financial reports.

Potential dilution of present and prospective shareholdings

In order to finance future operations and development efforts, the Company may raise funds through the issue of common shares or the issue of securities convertible into common shares. The Company cannot predict the size of future issues of common shares or the issue of securities convertible into common shares or the effect, if any, that future issues and sales of the Company's common shares will have on the market price of its common shares. Any transaction involving the issue of shares, or securities convertible into shares, could result in dilution, possibly substantial, to present and prospective holders of shares.

1.17 CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

The preparation of the Company's 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.

Changes in circumstances in the future, many of which are outside of management's control, will impact the Company's estimates of future recoverability of net amounts to be realized from their assets. Such factors include, but are not limited to, the availability of financing, the identification of economically recoverable reserves, co-venturer decisions and developments, market prices of minerals, the Company's plans and intentions with respect to its assets and other industry and competitor developments.

1.18 FUTURE ACCOUNTING STANDARDS

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 Involvement with 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, sets 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.

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).

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.

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.

1.19 FINANCIAL INSTRUMENTS

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

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

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

(a) Fair value

The Company's measurement of fair value of marketable securities and deferred compensation as at December 31, 2012 and 2011 is in accordance with the level 1 fair value hierarchy.

(b) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of cash and cash equivalents, by placing its cash balances at a major Canadian financial institution. 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, as all amounts are held at a single Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	December 31, 2012	December 31, 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.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2012, the Company has cash and cash equivalents of \$1,645,595 (December 31, 2011 - \$2,256,104), current liabilities of \$867,368 (December 31, 2011 - \$2,111,958) and working capital of \$1,601,322 (December 31, 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

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

(d) Market risk

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

(i) Interest rate risk

Interest rate risk consists of two components:

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

Fluctuations in the interest rates impact the value of cash equivalents. As at December 31, 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 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.

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

	December 31, 2012		December 31, 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 will 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. At December 31, 2012 a 5% change in the Dow Jones Industrial Average will impact the Company's earnings by approximately \$33,340. The Company is not exposed to significant price risk on its marketable securities.

Additional information related to the Company is found on SEDAR at www.sedar.com.