

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)

**YEAR ENDED DECEMBER 31, 2013**

**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, 2013 and 2012, 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, 2013 and 2012, 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 23, 2014

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

As at December 31	2013	2012
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 728,508	\$ 1,645,595
Marketable securities (Note 6)	461,166	153,500
Receivables (Notes 7 and 8)	300,000	655,634
Prepaid expenses	17,480	13,961
	1,507,154	2,468,690
<b>Non-Current</b>		
Exploration and evaluation assets (Note 9)	461,697	-
Other receivables (Note 8)	-	603,600
	\$ 1,968,851	\$ 3,072,290
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Notes 10 and 13)	\$ 109,928	\$ 121,193
Current portion of other liabilities (Note 11)	-	746,175
	109,928	867,368
<b>Non-Current</b>		
Deferred compensation (Note 13)	903,793	665,190
Other liabilities (Note 11)	-	1,403,552
	1,013,721	2,936,110
<b>EQUITY</b>		
Share capital (Note 12)	25,229,869	23,359,619
Share-based payment reserve (Note 12)	2,593,157	2,384,187
Deficit	(26,867,896)	(25,607,626)
	955,130	136,180
	\$ 1,968,851	\$ 3,072,290

Approved and authorized by the Board:

\_\_\_\_\_  
*"Ronald Husband"* Director  
Ronald Husband

\_\_\_\_\_  
*"Stephen Kenwood"* Director  
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	2013	2012
<b>EXPENSES</b>		
Consulting fees (Note 13)	\$ 893,294	\$ 805,726
Insurance	20,867	11,443
Mineral property investigation	-	1,265
Office and administration	24,917	27,195
Professional fees	108,547	105,612
Rent	16,687	19,200
Share-based payments (Note 12)	240,167	18,295
Transfer agent and filing fees	32,725	26,356
Travel and promotion	24,955	54,976
	(1,362,159)	(1,070,068)
Interest recovery (expense) (Notes 9 and 11)	(167,490)	17,723
Interest income (Note 8)	49,719	70,789
Gain on early settlement of Augusta loan (Note 11)	288,830	-
Loss on fair value of receivables (Note 8)	(87,655)	(20,000)
Change in fair value of derivative financial liability (Note 13)	101,531	(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)	49,050	212,492
Impairment of marketable securities (Note 6)	(100,111)	(134,944)
Gain (loss) on foreign exchange	(63,182)	26,905
<b>Loss for the year</b>	<b>\$ (1,291,467)</b>	<b>\$ (1,371,836)</b>
<b>Loss for the year attributable to:</b>		
Non-controlling interest	\$ -	\$ (839)
Common shareholders	(1,291,467)	(1,370,997)
	<b>\$ (1,291,467)</b>	<b>\$ (1,371,836)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding</b>	<b>66,477,334</b>	<b>61,124,999</b>
<b>Comprehensive loss</b>		
Loss for the year	\$ (1,291,467)	\$ (1,371,836)
Items that may be reclassified subsequently to profit or loss		
Fair value adjustment of marketable securities, net of taxes	-	7,606
Transfer on impairment of marketable securities	-	130,912
Foreign currency translation reserve	-	(87,891)
<b>Comprehensive loss for the year</b>	<b>\$ (1,291,467)</b>	<b>\$ (1,321,209)</b>

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	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,291,467)	\$ (1,371,836)
Items not affecting cash:		
Share-based payments	240,167	18,295
Unrealized foreign exchange	7,499	(12,615)
Gain on early settlement of Augusta loan	(288,830)	-
Loss on fair value of receivables	87,655	20,000
Interest income accretion	(46,575)	(58,380)
Change in fair value of derivative financial liability	(101,531)	28,454
Loss on sale of subsidiary	-	387,871
Interest expense (recovery)	167,490	(17,723)
Excess on distribution from equity investment	-	(212,492)
Loss on equity investment	-	58,408
Fair value adjustment of marketable securities	100,111	-
Impairment of marketable securities	-	134,944
Changes in non-cash working capital items:		
Receivables	10,053	99
Prepaid expenses	(3,519)	11,108
Accounts payable and accrued liabilities	(40,549)	(186,371)
Deferred compensation	392,172	339,749
<b>Net cash used in operating activities</b>	<b>(767,324)</b>	<b>(860,489)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Distribution from equity investment	49,050	497,450
Consideration received from Solitario Exploration & Royalty Corp.	515,340	-
Exploration and evaluation expenditures, net of recoveries	(432,413)	(210,752)
<b>Net cash provided by investing activities</b>	<b>131,977</b>	<b>286,698</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of shares for cash, net of issuance costs	1,870,250	-
Contributions from Solitario Exploration & Royalty Corp.	-	315,087
Repayment of loan payable	-	(505,161)
Repayment of other liabilities, net of recoveries	(2,151,990)	153,356
<b>Net cash used in financing activities</b>	<b>(281,740)</b>	<b>(36,718)</b>
<b>Change in cash and cash equivalents for the year</b>	<b>(917,087)</b>	<b>(610,509)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,645,595</b>	<b>2,256,104</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 728,508</b>	<b>\$ 1,645,595</b>
<b>Cash and cash equivalents consists of</b>		
Cash	\$ 703,508	\$ 824,595
Term deposit	25,000	821,000
	<b>\$ 728,508</b>	<b>\$ 1,645,595</b>

**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	Investment revaluation reserve	Foreign currency translation reserve	Deficit	Non- controlling interest	Total
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
Fair value adjustment of marketable securities, net of deferred income taxes	-	-	-	7,606	-	-	-	7,606
Impairment of marketable securities	-	-	-	130,912	-	-	-	130,912
Share-based payments (Notes 12(c) and (d))	-	-	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
Shares issued during the year	18,702,504	1,870,250	-	-	-	-	-	1,870,250
Share-based payments (Note 12(c))	-	-	240,167	-	-	-	-	240,167
Expired warrants	-	-	(31,197)	-	-	31,197	-	-
Net loss for the year	-	-	-	-	-	(1,291,467)	-	(1,291,467)
Balance, December 31, 2013	80,312,749	\$ 25,229,869	\$ 2,593,157	\$ -	\$ -	\$ (26,867,896)	\$ -	\$ 955,130

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 exploration and evaluation assets. 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 December 22, 2010, the Company entered into a Limited Liability Company Operating Agreement with Solitario Exploration & Royalty Corp. (“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 \$1,291,467 for the year ended December 31, 2013 (2012 - \$1,371,836). As at December 31, 2013, the Company had an accumulated deficit \$26,867,896 (2012 - \$25,607,626) with a working capital of \$1,397,226 (2012 - \$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. These matters indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

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 23, 2014.

## **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.

**2. BASIS OF PREPARATION (cont'd...)**

**Basis of consolidation and presentation**

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

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its 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:

*Recovery of deferred tax assets*

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

*Share-based payments*

The fair value of share-based payments is subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.



**2. BASIS OF PREPARATION (cont'd...)**

**Use of estimates and judgments (cont'd...)**

*Valuation of derivative liabilities*

The Company evaluates all financial instruments for freestanding and embedded derivatives. Derivative liabilities that do not have readily determinable fair value require significant management estimation. The Company uses a hypothetical investment in units of the Dow Jones Industrial Average ("DJIA") to estimate the fair value at the end of each applicable reporting period of the deferred compensation contract that hosts an embedded derivative. Changes in the fair value during each reporting period are recorded in the consolidated statement of operations and comprehensive loss.

*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 involving management judgment include, but are not limited to:

*Determination of fair value of the remaining interest of the investment in associate on the date the Company lost control*

The Company determined the fair value of the remaining interest in its investment in MH-LLC on February 22, 2012, the date that it lost control. The determination of when an investment is impaired requires significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less than its original cost at each reporting period. As the Company's share of losses from MH-LLC have exceeded the original carrying value of the investment, the carrying value of the equity investment as of the December 31, 2013 is \$Nil (2012 - \$Nil). As such, the Company determined that there is no impairment on the investment.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Changes to accounting policies**

The following accounting standards and amendments to existing standards were adopted effective January 1, 2013:

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;
- IAS 28 *Investments in Associates and Joint Ventures*; and
- IAS 1 *Presentation of Financial Statements*.

The adoption of these standards has not had a significant impact on the Company's financial position or financial performance.

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

**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 year-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 identified in International Accounting Standard ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates*.

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

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

**Cash equivalents**

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

**Financial instruments**

Financial assets

Financial assets and financial 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...)**

Financial assets (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 consolidated 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 consolidated 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 security has been recorded in profit or loss, further decreases in value must continue to be recorded in profit or loss, but increases in fair value (reversals of impairment losses) will be recognized in other comprehensive income.

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

**Exploration and evaluation assets**

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. Exploration and evaluation assets 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.

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

**Provision for environmental rehabilitation**

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

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

**Unit offering**

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

**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 exploration and evaluation assets, 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 year-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 amounts of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated 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, 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 right 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.

Amendments to IAS 36 *Impairment of Assets* reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarifies the disclosures required and introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using the a present value technique.

*Accounting Standards Issued where the Adoption Date is not Specified*

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, shares receivable 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 cash and cash equivalents, marketable securities and shares receivable have been based on quoted market prices, a Level 1 measurement according to the fair value hierarchy. The carrying value of deferred compensation is based on inputs other than quoted prices, but the significant input of the DJIA is based on observable market data. Consequently this is considered to be a Level 2 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.

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 with respect to other receivables, as it is due from only one party. The Company's concentration of credit risk and maximum exposure thereto as of December 31 is as follows:

	2013	2012
Cash and cash equivalents	\$ 728,508	\$ 1,645,595
Receivables	\$ 291,105	\$ 1,240,161

(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, 2013, the Company has cash and cash equivalents of \$728,508 (2012 - \$1,645,595), current liabilities of \$109,928 (2012 - \$867,368) and working capital of \$1,397,226 (2012 - \$1,601,322).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2013:

Due Date	Accounts Payable and Accrued Liabilities	Deferred Compensation	Other Liabilities
0 – 90 days	\$ 109,928	\$ -	US\$ -
90 – 365 days	\$ -	\$ -	US\$ -
More than 1 year	\$ -	\$ 903,793	US\$ -

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**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, 2012:

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

(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, 2013, 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 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, 2013, the Company has not hedged its exposure to currency fluctuations.



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**4. FINANCIAL INSTRUMENTS (cont'd...)**

(c) Market risk (cont'd...)

(ii) Foreign currency risk (cont'd...)

At December 31, 2013 and 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	2013		2012	
Cash and cash equivalents	US\$	654,111	US\$	827,224
Amounts receivable <sup>(1)</sup>		250,000		1,000,000
Other financial liabilities <sup>(2)</sup>		(873,860)		(2,869,347)
<b>Net</b>	<b>US\$</b>	<b>30,251</b>	<b>US\$</b>	<b>(1,042,123)</b>
<b>Canadian dollar equivalent</b>		<b>32,175</b>		<b>(1,036,808)</b>

<sup>(1)</sup> Includes receivables and other receivables.

<sup>(2)</sup> Includes accounts payable and accrued liabilities, deferred compensation and other liabilities.

Based on the above net exposures as at December 31, 2013, a 5% (2012 - 5%) change in the Canadian/US exchange rate would impact the Company's earnings by approximately \$3,533 (2012 - \$14,974).

(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 DJIA, thus its value fluctuates based on movement in that index. At December 31, 2013, a 5% change in the DJIA would impact the Company's earnings by approximately \$58,165. The Company is not exposed to significant price risk on its marketable securities.

(iv) Fair value hierarchy

The following tables summarize the Company's financial instruments under the fair value hierarchy, as at December 31, 2013 and 2012:

December 31, 2013	Level 1	Level 2	Level 3	Total
<b>FVTPL</b>				
Cash and cash equivalents	\$728,508	\$ -	\$ -	\$ -
Shares receivable	\$ 43,500	\$ -	\$ -	\$ 43,500
Deferred compensation	\$ -	\$ 903,793	\$ -	\$ 903,793
<b>Available-for-sale</b>				
Marketable securities	\$461,166	\$ -	\$ -	\$ 461,166

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**4. FINANCIAL INSTRUMENTS (cont'd...)**

(c) Market risk (cont'd...)

(iv) Fair value hierarchy (cont'd...)

December 31, 2012	Level 1	Level 2	Level 3	Total
<b>FVTPL</b>				
Cash and cash equivalents	\$1,645,595	\$ -	\$ -	\$1,645,595
Shares receivable	\$ 300,000	\$ -	\$ -	\$ 300,000
Deferred compensation	\$ -	\$665,190	\$ -	\$ 665,190
<b>Available-for-sale</b>				
Marketable securities	\$ 153,500	\$ -	\$ -	\$ 153,500

**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 exploration and evaluation assets contain economically recoverable reserves of ore and currently has not earned any revenues from its exploration and evaluation assets, 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 ended December 31, 2013.

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**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, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Mountain China Resorts Holding Ltd.				
100,000 common shares	\$ 65,000	\$ 2,000	\$ 65,000	\$ 3,500
Solitario Royalty & Exploration Corp.				
527,777 (2012 – 100,000) common shares	615,277	459,166	207,500	150,000
	\$ 680,277	\$ 461,166	\$ 272,500	\$ 153,500

During the year ended December 31, 2012, management made the assessment that marketable securities had experienced a prolonged decline in their fair values. Accordingly, an impairment of \$130,912 was transferred from accumulated other comprehensive loss and recognized in net loss. Total impairment for the year ended December 31, 2012 includes a write-off of \$4,032 in Citigroup common shares.

During the year ended December 31, 2013, as there were further decreases in fair value of the marketable securities, \$100,111 was recognized in net loss.

**7. RECEIVABLES**

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

	2013	2012
Sales taxes receivable	\$ 8,895	\$ 19,073
Current portion of additional consideration receivable (Note 8)	291,105	636,561
Total	\$ 300,000	\$ 655,634

**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 in 2010);
- (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 (the "Underlying Royalty Holder") subject to the Mount Hamilton lease for a 10% interest in MH-LLC (paid in 2010);
- (c) Ely to contribute its exploration and evaluation assets (Mount Hamilton and Monte Cristo) with a fair value of \$2,738,340 (US\$2,700,000) for a 90% interest in MH-LLC (contributed in 2010);

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

- (d) Solitario to subscribe for three additional tranches of common shares of Ely (the "Additional Tranches"):
- (i) US\$750,000 of common shares on or before May 1, 2013 (received US\$500,000 on April 23, 2013);
  - (ii) US\$750,000 of common shares on or before May 1, 2014 (settled November 22, 2013); and
  - (iii) US\$1,000,000 of common shares on or before May 1, 2015 (settled November 22, 2013).

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).

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.

At Solitario's request Ely shall have the obligation to negotiate with Augusta to seek a discounted payoff of any and all payments to Augusta. However, Ely shall not amend or modify any existing agreement or instrument or enter into any new agreement relating to or affecting in any way the payments to Augusta without the written consent of Solitario. Any discount from the amount of payments to Augusta shall reduce, on a dollar-for-dollar basis, the obligation of Solitario to subscribe for the Additional Tranches.

On November 22, 2013, at Solitario's request, Ely entered into an agreement (the "Amending Agreement") with Augusta reducing the payments to Augusta from US\$1,750,000 to US\$1,300,000.

On November 22, 2013, Solitario subscribed for 13,571,354 common shares of the Company at a price of \$0.10 per share for gross proceeds of \$1,357,135. With this subscription, Solitario concluded its obligation to subscribe to the common shares of Ely under the Additional Tranches.

- (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 (paid in 2011); and
  - (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 in 2012).
- (f) Phase II: To earn an additional 19% interest in MH-LLC, for a total of 70%, Solitario is required to:
- (i) invest US\$300,000 into MH-LLC for an advance royalty payment to the Underlying Royalty Holder; and
  - (ii) make payments totaling US\$500,000 to DHI US and issue 100,000 Solitario common shares to DHI US by August 23, 2013 (received US\$500,000 and 100,000 Solitario common shares in 2013).

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

- (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% net smelter return royalty (“NSR”) to a 3% NSR by paying the Underlying Royalty Holder US\$5,000,000 upon commencement of commercial production; 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 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, 2013, 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 records its share of profit or loss from MH-LLC in the consolidated 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 had the following impact on the consolidated statement of operations 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, for the year ended December 31, 2012	\$ (387,781)

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

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.

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. On December 20, 2013, the Company received 277,777 common shares of Solitario in lieu of US\$250,000 and recognized a loss on receivables of \$11,154. For the year ended December 31, 2013, interest income of \$46,575 (2012 - \$58,380) and a loss on the fair value of the Solitario common shares receivable of \$87,655 (2012 - \$20,000) was recognized in the consolidated statement of operations and comprehensive loss.

As at December 31, 2013, the remaining balance of the additional consideration receivable comprises US\$250,000 (2012 - US\$1,000,000) and 50,000 (2012 - 200,000) common shares of Solitario. The net present value of the cash component of the consideration receivable is \$247,605 (2012 - \$940,161) and the fair value of the Solitario common shares component of the consideration receivable is \$43,500 (2012 - \$300,000) and is disclosed in the consolidated statements of financial position as follows:

	December 31, 2013	December 31, 2012
Current receivables	\$ 291,105	\$ 636,561
Non-current receivables	-	603,600
<b>Total</b>	<b>\$ 291,105</b>	<b>\$ 1,240,161</b>

The remaining balance of the additional consideration receivable was received subsequent to the year ended December 31, 2013.

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)
<b>Excess on distribution from equity investment, December 31, 2012</b>	<b>\$ (212,492)</b>

At December 31, 2012, the share of losses and distributions 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 distributions will be recognized in the consolidated statements of operations and comprehensive loss. At December 31, 2013, the carrying value of the Company's equity investment in MH-LLC continues to be \$Nil.

During the year ended December 31, 2013, MH-LLC declared a distribution of US\$250,000, of which US\$50,000 (\$49,050) was distributed to the Company and recognized in the consolidated statement of operations and comprehensive loss.

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

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

	2013	2012
Non-controlling interest, beginning of year	\$ -	\$ 7,312,564
Additional capital contributions by Solitario	-	315,087
Share of foreign currency translation adjustment	-	(17,546)
Share of net loss in MH-LLC	-	(839)
Dilution of investment to 20% of MH-LLC	-	(7,609,266)
<b>Non-controlling interest, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

Summary of financial information for MH-LLC:

	<b>As at December 31, 2013</b>	
	<b>\$US</b>	
Current assets	\$	1,980,728
Non-current assets	\$	12,301,299
Current liabilities	\$	184,981
Non-current liabilities	\$	7,000,000
	<b>Year ended December 31, 2013</b>	
	<b>\$US</b>	
Net income	\$	237,013
Comprehensive income	\$	237,013

**9. EXPLORATION AND EVALUATION ASSETS**

	Green Springs (a)	Cox Claims (b)	Mount Hamilton (c)	Total
Balance, December 31, 2011	\$ -	\$ -	\$ 10,304,749	\$ 10,304,749
Derecognition of the Company's interest in MH-LLC	-	-	(10,304,749)	(10,304,749)
Balance, December 31, 2012	-	-	-	-
Acquisition costs	345,998	23,523	-	369,521
Exploration and evaluation costs	92,176	-	-	92,176
<b>Balance, December 31, 2013</b>	<b>\$ 438,174</b>	<b>\$ 23,523</b>	<b>\$ -</b>	<b>\$ 461,697</b>

(a) Green Springs

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.

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

(b) Cox Claims

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 advance royalty payments is payable as follows on each anniversary of the agreement:

- Upon signing, US \$7,500 (paid)
- January 16, 2014, US \$10,000 (paid)
- January 16, 2015, US \$12,000
- January 16, 2016, US \$15,000
- January 16, 2017, US \$15,000
- January 16, 2018, US \$15,000
- January 16, 2019, US \$20,000
- January 16, 2020 and on each subsequent anniversary, US \$25,000

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:

- Upon signing, US \$2,500 (paid)
- January 16, 2014, US \$2,500 (paid subsequent to year-end)
- January 16, 2015, US \$2,500
- January 16, 2016 to January 16, 2023, US \$5,000 each year

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) Mount Hamilton property, Nevada

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.

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% 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 (the "First Royalty Reduction Option").



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

(c) Mount Hamilton property, Nevada (cont'd...)

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 (the "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 (the "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. On January 23, 2013, the exercise period of the warrants was extended from February 28, 2013 to February 28, 2015 (Note 12).

*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. The loan was repaid June 28, 2012, and Solitario forgave the entire amount of accrued interest on the loan, leading to an interest recovery of \$17,723.

*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 was paid to MH-LLC in January 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...)**

(c) 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 was included in interest expense (recoveries) on the consolidated statements of operations during the year ended December 31, 2012.

In April 2013, MH-LLC authorized a distribution of US\$250,000, which was distributed according to ownership in MH-LLC resulting in Solitario receiving US\$200,000 and the Company receiving US\$50,000 (\$49,050), which was included in excess on distribution from equity investment.

*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:

	2013	2012
Trade payables	\$ 74,678	\$ 35,722
Accrued liabilities	30,000	47,500
Due to related parties	5,250	37,971
<b>Total</b>	<b>\$ 109,928</b>	<b>\$ 121,193</b>

**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 (expired July 28, 2010) from the date of the agreement at a fair value of \$2,828,661.

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

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.

On November 20, 2013, the Company entered into an Amending Agreement with Augusta to reduce the Acquisition Payment by US\$450,000 to US\$6,175,000. Pursuant to the Amending Agreement, the Company has the right to satisfy all obligations to Augusta by paying the reduced amount owing of US\$1,300,000 by November 30, 2013 (paid).

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	(paid - \$774,900)
November 30, 2013	US	1,300,000	(paid - \$1,377,090)
	US	\$6,175,000	

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 years ended December 31, 2013 and 2012, the interest is capitalized to exploration and evaluation assets.

The continuity of the Acquisition Payment during the years ended December 31 is as follows:

	2013		2012	
Opening balance	\$	2,149,727	\$	2,721,494
Interest expense		167,490		235,564
Foreign exchange loss (gain)		123,603		(49,951)
Payments		(2,151,990)		(757,380)
Gain on settlement		(288,830)		-
Ending payable to Augusta	\$	-	\$	2,149,727

As of December 31, the Acquisition Payment balance was as follows:

	2013		2012	
Payable to Augusta	\$	-	\$	2,149,727
Current portion		-		(746,175)
Other liabilities	\$	-	\$	1,403,552

**12. SHARE CAPITAL AND RESERVES**

(a) Authorized share capital

As at December 31, 2013, 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, 2013, the Company issued 18,702,504 common shares at a value of \$0.10 per common share to Solitario for gross proceeds of \$1,870,250.

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.

(c) Stock options

The Company has an incentive stock option 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, 2013 and 2012, the Company had outstanding stock options enabling the holders to acquire further common shares as follows:

Expiry Date	Exercise Price	2013	2012
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
February 26, 2017*	\$ 0.12	600,000	600,000
July 24, 2017	\$ 0.14	200,000	200,000
September 22, 2021	\$ 0.20	1,300,000	1,300,000
January 30, 2023	\$ 0.14	450,000	-
<b>Total outstanding and exercisable</b>		<b>6,100,000</b>	<b>5,650,000</b>

\* During the year ended December 31, 2013, these options’ exercise price was reduced from \$0.50 to \$0.12 and the exercise period was extended for a period of two years, resulting in an increase in fair value of \$32,108, which was included in share-based payment expense.

The weighted average remaining contractual life for the outstanding options at December 31, 2013 is 3.71 (2012 - 4.07) years.

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

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

Stock option transactions are summarized as follows:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	5,650,000	\$ 0.22	5,850,000	\$ 0.23
Granted	450,000	\$ 0.14	200,000	\$ 0.14
Expired	-	\$ -	(400,000)	\$ 0.35
Options exercisable, end of year	6,100,000	\$ 0.21	5,650,000	\$ 0.22

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, expiring January 30, 2023. The fair value of these options was calculated at \$65,831 using the Black-Scholes option pricing model. During the year ended December 31, 2013, the Company recorded a total share-based payment expense of \$240,167.

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

(d) Warrants

As at December 31, 2013 and 2012, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	2013	2012
March 29, 2013	\$ 0.40	-	5,124,700
February 28, 2015*	\$ 0.32	4,000,000	4,000,000
		4,000,000	9,124,700

\* During the year ended December 31, 2013, these warrants were extended for a period of two years, resulting in an increase in fair value of \$142,228, which was included in share-based payment expense.

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

(d) Warrants (cont'd...)

Share purchase warrant transactions are summarized as follows:

	December 31, 2013		December 31, 2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	9,124,700	\$ 0.36	11,942,866	\$ 0.34
Expired	(5,124,700)	\$ 0.40	(2,818,166)	\$ 0.25
Balance, end of year	4,000,000	\$ 0.32	9,124,700	\$ 0.36

No warrants were issued during the years ended December 31, 2013 and 2012.

(e) The fair value of stock options and warrants are estimated using the Black-Scholes option pricing model with the following weighted average assumptions.

	2013		2012	
	Options	Warrants	Options	Warrants
Risk-free interest rate	1.63%	1.13%	1.30%	N/A
Expected dividend yield	0.00%	0.00%	0.00%	N/A
Expected stock price volatility	132%	69%	108%	N/A
Expected life in years	6.38	2.10	5.00	N/A
Weighted average fair value	\$0.11	\$0.04	\$0.09	N/A

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 and warrant.

**13. RELATED PARTY TRANSACTIONS**

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 for the year ended December 31:

	2013	2012
Short-term employment benefits	\$ 791,596	\$ 701,743
Share-based payments	90,624	18,295
Total	\$ 882,220	\$ 720,038

As at December 31, 2013, \$5,250 (2012 - \$39,691) is owing to related parties for consulting fees, which is included in accounts payable and accrued liabilities. A prepaid advance of \$13,042 (US \$12,000) (2012 - \$Nil) was made to an officer and director of the Company.

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**13. RELATED PARTY TRANSACTIONS (cont'd...)**

As at December 31, 2013, \$903,793 (2012 - \$665,190) is owing to related parties for deferred consulting fees; \$647,899 is payable January 1, 2016 and \$255,894 is payable January 1, 2020. The amounts are included in the consolidated statements of financial position as deferred compensation.

During the year ended December 31, 2012, the Company amended the terms of the payment of deferred consulting fees so that the amount payable is indexed to the DJIA. 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 with fair value gains and losses recorded in profit or loss. Due to the long-term nature of the payment of the deferred compensation, the carrying value of the estimated obligation of \$1,237,291 is discounted at December 31, 2013 using an effective interest rate of 10%. During the year ended December 31, 2013, the Company recognized a change in fair value of \$101,531 (2012 - \$28,454) in the consolidated statements of operations. Subsequent to the year ended December 31, 2013, the terms of the payment of deferred compensation was amended to no longer be indexed to the DJIA and will accrue interest from April 1, 2014 onwards at the prime rate (as defined in the agreement), plus 2%, compounded quarterly.

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 and directors whereby the officers and directors 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:

	2013	2012
Shares issued to settle debt	\$ -	\$ 600,000
Common shares received from optioned evaluation and exploration assets	\$ -	\$ 71,250
Exploration and evaluation expenditures included in accounts payable and accrued liabilities	\$ 29,284	\$ -
Shares received from Solitario	\$ 407,000	\$ -

**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.

	2013	2012
Non-current assets		
United States	\$ 461,697	\$ -

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**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:

	2013	2012
Loss for the year	\$ (1,291,467)	\$ (1,371,836)
Canadian statutory tax rate	26%	25%
Income tax recovery computed at statutory rates	(335,781)	(342,959)
Foreign tax rates different from statutory rates	(35,857)	(31,631)
Change in timing differences	(100,295)	173,497
Rate difference between current and deferred taxes	(169,133)	2,688
Foreign exchange gains or losses	(44,965)	6,720
Permanent differences	64,423	5,724
Unused tax losses and tax offsets not recognized in tax asset	621,610	185,961
Income tax recovery	\$ -	\$ -

Effective April 1, 2013, the British Columbia corporate tax rate increased from 10% to 11% and the Canadian federal corporate tax rate remained constant at 15%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25% to 26%.

- (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:

	2013	2012
Non-capital losses	\$ 13,719,000	\$ 12,329,000
Capital losses	2,287,000	2,253,000
Share issue costs	1,000	2,000
Tax value over book value of equipment	2,000	2,000
Tax value over book value of exploration and evaluation assets	3,914,000	3,709,000
Tax value over book value of investments	118,000	68,000
Unrecognized deductible temporary differences	\$ 20,041,000	\$ 18,363,000

As at December 31, 2013, the Company has non-capital losses carried forward of approximately \$11,600,000 and \$2,119,000 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 2033.

**17. EVENT AFTER THE REPORTING PERIOD**

Subsequent to December 31, 2013:

- On January 28, 2014, the Company granted incentive stock options to certain directors and officers of the Company entitling them to purchase 900,000 common shares at a price of \$0.12 per share for a period of 10 years vesting 100% on the grant date and expiring January 28, 2024.