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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in Canadian Dollars)

NINE MONTHS ENDED SEPTEMBER 30, 2011

Notice to Reader

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

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

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

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

	September 30, 2011	December 31, 2010 (Note 17)
ASSETS		
Current		
Cash	$ 2,573,321	$ 196,538
Marketable securities (Note 4)	103,971	16,705
Receivables (Note 5)	12,143	28,159
Prepaid expenses	168,550	5,493
	2,857,985	246,895
Equipment (Note 6)	-	1,165
Mineral properties (Note 7)	8,768,474	4,234,017
	$ 11,626,459	$ 4,482,077
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	$ 1,532,439	$ 901,236
Current portion of other liabilities (Note 10)	779,175	497,300
	2,311,614	1,398,536
Loans payables (Note 7)	534,192	-
Other liabilities (Note 10)	1,931,794	2,389,776
	4,777,600	3,788,312
Equity		
Share capital (Note 11)	22,759,619	19,735,394
Share based payment reserve (Note 11)	2,483,878	2,118,058
Investment revaluation reserve	(113,754)	(64,770)
Subscriptions receivable	-	(15,000)
Foreign currency translation reserve	290,374	(70,650)
Deficit	(19,425,312)	(21,428,528)
Equity attributable to owners of the Company	5,994,805	274,504
Non-controlling interest (Note 8)	854,054	419,261
	6,848,859	693,765
	$ 11,626,459	$ 4,482,077

Nature and continuance of operations (Note 1)
Contingency (Note 14)
Subsequent events (Note 16)

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

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010 (Note 17)	2011	2010 (Note 17)
EXPENSES				
Consulting fees	$ 160,788	$ 57,433	$ 519,532	$ 215,410
Depreciation (Note 6)	845	356	1,165	1,068
Insurance	4,037	4,038	12,115	12,116
Office and administration	64,137	2,520	112,987	7,117
Professional fees	78,639	58,073	173,352	120,925
Rent	5,625	4,500	16,125	26,700
Share-based payment (Note 11)	253,926	320,800	459,969	497,924
Telecommunications	504	822	2,212	2,962
Transfer agent and filing fees	2,710	7,037	35,081	34,632
Travel and promotion	5,497	4,978	54,838	32,775
	(576,708)	(460,557)	(1,387,376)	(951,629)
OTHER INCOME (EXPENSES)				
Interest income	4,335	-	4,335	-
Interest expense	(10,421)	-	(10,421)	-
Gain (loss) on foreign exchange	(186,731)	110,248	(104,654)	51,398
	(192,817)	110,248	(110,689)	51,398
INCOME (LOSS) BEFORE OTHER ITEMS	(769,525)	(350,309)	(1,498,065)	900,231
Gain arising by capital contributions by non-controlling interest (Note 8)	886,623	-	3,491,956	-
Income (loss) for the period	$ 117,098	$ (350,309)	$ 1,993,891	$ (900,231)
Net income (loss) for the period attributable to:				
Non-controlling interest (Note 8)	$ (5,418)	$ -	$ (9,375)	$ -
Common shareholders	122,516	(350,309)	2,003,216	(900,231)
	$ 117,098	$ (350,309)	$ 1,993,891	$ (900,231)
Basic and diluted income (loss) per common share	$ 0.00	$ (0.01)	$ 0.04	$ (0.01)
Weighted average number of common shares outstanding	59,203,597	41,455,910	54,933,582	41,455,910
Comprehensive income (loss)				
Income (loss) for the period	$ 117,098	$ (350,309)	$ 1,993,891	$ (900,231)
Increase (decrease) in fair value of marketable securities, net of future income taxes	(30,044)	(2,961)	(48,984)	8,563
Comprehensive income (loss) for the period	**$** 87,054	$ (353,270)	$ 1,944,907	$ (891,668)

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

ELY GOLD & MINERALS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30

	2011	2010
		(Note 17)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the period	$ 1,993,891	$ (900,231)
Items not affecting cash:		
Depreciation	1,165	1,068
Share-based payment	459,969	497,924
Unrealized gain – foreign exchange	110,985	(348,384)
Gain arising on capital contributions by non-controlling interest	(3,491,956)	-
Changes in non-cash working capital items:		
Receivables	16,016	(22,552)
Prepaid expenses	(147,239)	(2,673)
Accounts payable and accrued liabilities	139,237	17,183
Net cash used in operating activities	(917,932)	(757,665)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral properties, net of recoveries	(4,157,190)	(284,419)
Net cash provided by (used in) investing activities	(4,157,190)	(284,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash, net of costs	2,945,076	865,510
Contributions from Solitario	4,460,680	
Loan payable	534,192	-
Repayment of other liabilities	(488,043)	-
Net cash provided by (used in) financing activities	7,451,905	865,510
Change in cash for the period	2,376,783	(176,574)
Cash, beginning of period	196,538	243,050
Cash, end of period	$ 2,573,321	$ 66,476

Supplemental disclosure with respect to cash flows (Note 13)

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

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

	Number of shares	Share capital	Share based transaction reserves	Subscriptions receivable	Investment revaluation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total
Balance, December 31, 2009	39,169,912	$ 18,561,078	$ 1,459,236	$ -	$ (68,480)	$ -	$ (14,075,322)	$ -	$ 5,876,512
Shares issued during the period									
Private placements, net of issuance costs	5,959,667	888,010	-	(37,500)	-	-	-	-	850,510
Exercise of options	75,000	15,000	-	-	-	-	-	-	15,000
Allocation of share-based reserves on exercise of warrants	-	21,502	(21,502)	-	-	-	-	-	-
Share-based payments (Note 11(c))	-	-	497,924	-	-	-	-	-	497,924
Fair value of warrants issued (Note 7)	-	-	1,136,000	-	-	-	-	-	1,136,000
Forfeiture and expiry of options and warrants	-	-	(1,215,154)	-	-	-	1,328,005	-	112,851
Increase in fair value of marketable securities, net of deferred income taxes	-	-	-	-	8,562	-	-	-	8,562
Net loss for the period	-	-	-	-	-	-	(900,231)	-	(900,231)
Balance, September 30, 2010	45,204,579	19,485,590	1,856,504	(37,500)	(59,918)	-	(13,647,548)	-	7,597,128
Shares issued during the period									
Private placements, net of issuance costs	1,666,666	244,304	-	22,500	-	-	-	-	266,804
Exercise of warrants	22,000	5,500	-	-	-	-	-	-	5,500
Share-based payments	-	-	255,858	-	-	-	-	-	255,858
Fair value of warrants issued	-	-	5,696	-	-	-	-	-	5,696
Decrease in fair value of marketable securities, net of deferred income taxes	-	-	-	-	(4,852)			-	(4,852)
Effects of foreign currency translation	-	-	-	-	-	(70,650)	-	(7,850)	(78,500)
Non-controlling interest	-	-	-	-	-	-	-	429,100	429,100
Net loss for the period	-	-	-	-	-	-	(7,780,980)	(1,989)	(7,782,969))
Balance, December 31, 2010	46,893,245	19,735,394	2,118,058	(15,000)	(64,770)	(70,650)	(21,428,528)	419,261	693,765
Shares issued during the year									
Private placements, net of issuance costs	10,256,000	2,414,826	-	-	-	-	-	-	2,414,826
Exercise of warrants	2,061,000	515,250	-	-	-	-	-	-	515,250
Share-based compensation (Note 11(c))	-	-	459,969	-	-	-	-	-	459,969
Fair value of warrants issued (Note 11(d))	-	(31,192)	31,192	-	-	-	-	-	-
Allocation of share-based reserves on exercise of warrants	-	125,341	(125,341)	-	-	-	-	-	-
Subscriptions receivable	-	-	-	15,000	-	-	-	-	15,000
Decrease in fair value of marketable securities, net of future income taxes	-	-	-	-	(48,984)	-	-	-	(48,984)
Non-controlling interest	-	-	-	-	-	-	-	445,118	445,118
Effects of foreign currency translation	-	-	-	-	-	361,024	-	(1,000)	51,801
Net loss for the period	-	-	-	-	-	-	2,003,216	(9,325)	1,993,891
Balance, September 30, 2011	59,210,245	$ 22,759,619	$ 2,483,878	$ -	$ (113,754)	$ 290,374	$ (19,425,312)	$ 854,054	$ 6,848,859

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

On August 26, 2010, the Company signed a Letter of Intent ("LOI") with Solitario Exploration & Royalty Corp. ("Solitario") to make certain equity investments into the Company and to collaborate the development of the Company's Mount Hamilton and Monte Cristo properties. On December 22, 2010, the Company entered into a Limited Liability Company Operating Agreement with Solitario ("Operating Agreement"), which resulted in the formation of a separate entity, Mt. Hamilton LLC (a Colorado limited liability company) ("MH-LLC"), whereby the Company holds a 90% interest and the remaining 10% held by Solitario (see Note 8).

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

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

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

2. BASIS OF PREPARATION

Statement of Compliance

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

The Company's transition date to IFRS is January 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("GAAP"). Historical results and balances have been restated under IFRS. These consolidated interim financial statements should be read in conjunction with the Company's 2010 GAAP annual financial statements, and in consideration of the disclosure regarding the transition from Canadian GAAP to IFRS included in Note 17.

2. BASIS OF PREPARATION (cont'd…)

Basis of Consolidation and Presentation

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

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries, DHI Minerals Ltd. ("DHI") (a British Columbia corporation), DHI Mineral (US) Ltd. ("DHI US") (a Nevada corporation), and its 90% owned subsidiary, MH-LLC, from December 22, 2010 (Note 8). All material intercompany transactions and balances have been eliminated.

Non-controlling interests in the net assets of the consolidated subsidiary 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 statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Use of Estimates

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign exchange

The functional currency for each of our 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 balance sheet date are retranslated at the period end date exchange rates. Non-monetary items which are 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, which is also the presentation currency. The functional currency of MH-LLC is the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in 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 statement of income are translated using weighted average exchange rates that reasonably approximate the exchange rate at the transaction date. Items in the balance sheet 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 net income (loss).

Financial instruments

Financial assets

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

Fair value through profit or loss - 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

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 profit or loss.

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

Financial liabilities

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

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

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

The Company has classified its cash as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Investments in marketable securities

Investments in 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 balance sheet date. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income until investments are disposed of or when there is objective evidence of an impairment in value. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance.

At each balance sheet date, the investments are assessed for any objective evidence of an impairment in value and record such impairments in earnings for the period. If an impairment of an investment in a marketable equity security has been recorded in earnings, it cannot be reversed in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Earnings (loss) per share

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

Mineral properties – Exploration & Evaluation Expenditures

Pre-exploration costs are expenses as incurred.

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

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

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

Equipment

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

Computer equipment	45%
Computer software	55%

Impairment of long-lived assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment of long lived assets (cont'd…)

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

Provision for environmental rehabilitation

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

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

Share-based payments

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model options and is accrued and charged either to operations or mineral property interests, with the offset credit to share-based payment reserve. For directors and employees the fair value is recognized over the vesting period, and for non-employees the fair value is recognized over the related service period. Consideration paid for the shares on the exercise of stock options is credited to share capital and the applicable amounts of share-based payment reserve are transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payment reserve. For options that expire or are forfeited after vesting, the recorded value is transferred to retained earnings (deficit).

Income taxes

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

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet 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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2011 and have not been applied in preparing these Interim Financial Statements.

Financial instruments disclosure
In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

Income taxes
In December 2010, the IASB issued an amendment to IAS 12 – Income taxes that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

Joint ventures
The IASB issued Exposure Draft 9 – Joint Arrangements ("ED-9") in September 2007. ED-9 proposed to eliminate the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method. During the second quarter of 2009, the IASB commenced re-deliberations of ED-9 and now proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The IASB plans on publishing the final standard during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company does not anticipate that the adoption of this standard will have a significant impact on its financial statements.

Consolidation
On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 - Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

Financial instruments
The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. The IASB has issued exposure drafts addressing impairment of financial instruments, hedge accounting and the offsetting of financial assets and liabilities, with comments due in March and April of 2011. The complete IFRS 9 is anticipated to be issued during the second half of 2011. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

(Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

The Company's investments comprise the following common shares, and therefore have no fixed maturity to coupon rate. The fair of the available-for-sale investments have been determined directly by reference to published price quotations in an active market.

	September 30, 2011		December 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Melco China Resorts Holding Ltd.				
100,000 common shares	$ 65,000	$ 12,000	$ 65,000	$ 12,000
Solitario Royalty & Exploration Corp.				
50,000 common shares	136,250	89,500	-	-
Citigroup Inc.				
1,000 common shares	15,944	4,015	15,944	4,705
	$ 217,194	$ 103,971	$ 80,944	$ 16,705

5. RECEIVABLES

The Company's receivables as follows:

	September 30, 2011	December 31, 2010
HST receivable	$ 12,143	$ 27,006
Other receivable	-	1,153
Total	$ 12,143	$ 28,159

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Computer equipment	Computer software	Total
Cost			
Balance, December 31, 2010	$ 2,496	$ 5,268	$ 7,764
Additions	-	-	-
Balance, September 30, 2011	$ 2,496	$ 5,268	$ 7,764
Accumulated depreciation			
Balance, December 31, 2010	$ 2,104	$ 4,495	$ 6,599
Depreciation	392	773	1,165
Balance, September 30, 2011	$ 2,496	$ 5,268	$ 7,764
Carrying amounts			
As at December 31, 2010	$ 392	$ 773	$ 1,165
As at September 30, 2011	$ -	$ -	$ -

7. MINERAL PROPERTIES

	Mount Hamilton
Mount Hamilton	$ 4,194,233
Shell (Note 7b)	39,784
Balance, December 31, 2010	4,234,017
Acquisition and borrowing costs	2,986,370
Deferred exploration costs	
Claims	313,413
Feasibility	587,556
Camp and exploration support	216,078
Drilling	577,702
Geological	293,417
Travel	52,537
Total deferred exploration costs for the period	2,040,703
Recoveries	(861,166)
Balance, before translation	8,399,924
Translation adjustment	368,550
Balance, September 30, 2011	$ 8,768,474

(Expressed in Canadian Dollars)

7. MINERAL PROPERTIES

	Mount Hamilton	Shell	Monte Cristo	Gold Range	Total
Balance, January 1, 2010	$ 7,497,491	$ 1,002,358	$ 58,727	$ 149,446	$ 8,708,022
Acquisition & borrowing costs	2,210,789	-	26,500	-	2,237,289
Deferred exploration costs					
Claims	3,578	-	-	-	3,578
Feasibility	170,152	-	-	-	170,152
Camp and exploration support	54,686	-	-	-	54,686
Drilling	639,780	-	-	-	639,780
Geological	211,183	-	-	-	211,183
Travel	48,519	-	-	-	48,519
Total deferred exploration costs for the year	1,127,898	-	-	-	1,127,898
Balance, before translation	10,836,178	1,002,358	85,227	149,446	12,073,209
Translation adjustments	(78,500)	-	-	-	(78,500)
Balance, before impairment	10,757,678	1,002,358	85,227	149,446	11,994,709
Impairment	(6,563,445)	(962,574)	(85,227)	(149,446)	(7,760,692)
Balance, December 31, 2010	$ 4,194,233	$ 39,784	$ -	$ -	$ 4,234,017

(Expressed in Canadian Dollars)

7. **MINERAL PROPERTIES** (cont'd…)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, title to all of its properties, except as described below, are properly registered and in good standing.

a) Mount Hamilton property, Nevada

The Mount Hamilton property was subject to minimum advance royalty payments of US$100,000 per year until November 19, 2010 when the minimum royalty payments increased to 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% Net Smelter Return ("NSR"). Of the NSR, 1.5% can be bought down at any time prior to the date commercial production commences for US$2,000,000 ("First Royalty Reduction Option").

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

The extension warrants were valued at $3,018 and have been included in mineral properties. The fair value of the extension warrants is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.31%
Expected dividend yield	0.00%
Expected stock price volatility	164%
Expected life in years	1.5

Pursuant to the extension, the Company paid the $115,720 (US$110,000) lease payment on March 1, 2010.

On February 22, 2010 and April 28, 2010, the Company further negotiated amendments to the Mt. 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%.

(Expressed in Canadian Dollars)

7. MINERAL PROPERTIES (cont'd…)

Mt. Hamilton property, Nevada (cont'd…)

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.

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

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

Pursuant to the LOI (Note 1), the Company and Solitario agreed that the fair value of the Mount Hamilton and Monte Cristo project was $2,738,340 (US$2,700,000) resulting in an impairment of $6,563,445 to the Mount Hamilton in December 2010.

On May 27, 2011, MH-LLC entered in to a Purchase Agreement to buy-down the NSR on the Mt. Hamilton project. 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, ($2.46 million) consisting of US$1.52 million ($1.48 million) in cash and US$1.0 million ($0.98 million) by the delivery of 344,116 shares of Solitario.

Solitario contributed the entire purchase price of the royalty buy-down and loaned DHI(US) its 20%, US$504,000 ($534,192), proportionate share, the loan payable by DHI(US) to Solitario 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.

b) Shell property, Nevada

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

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

During fiscal 2011, the Shell properties have been reclassified to be included as part of the Mt. Hamilton project. As a result of this reclassification, all expenditures related to the Shell property have been included as part of the Mt. Hamilton expenditures.

7. MINERAL PROPERTIES (cont'd…)

c) Monte Cristo property, Nevada

The Monte Cristo property in White Pine County, Nevada, is adjacent to the Mount Hamilton and Shell properties. The Monte Cristo property is subject to minimum advance royalty payments of US$25,000, which are due on January 30 of each year.

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

d) Gold Range property, Nevada

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

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

8. INVESTMENT IN MT. HAMILTON LLC

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the periods from December 22, 2010, the Company has consolidated the results of its investment in MH-LLC and recorded a non-controlling interest for the 10% interest held by Solitario. During the nine month period ended September 30, 2011, Solitario has funded all costs and this has resulted in a gain of $3,491,956 (2010 - $Nil) arising on capital contributions by Solitario in the Company's statement of operations.

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	September 30, 2011	December 31, 2010
Trade payables	$ 605,265	$ 155,482
Accrued liabilities	40,000	30,000
Due to related parties	887,174	715,754
Total	$ 1,532,439	$ 901,236

10. OTHER LIABILITIES

On February 28, 2008, as amended on November 16, 2009, the Company acquired 100% of the issued and outstanding common shares of DHI, which owns 100% of the shares of DHI US pursuant to an agreement with Augusta Resources Ltd. ("Augusta"). As consideration for the acquisition, the Company agreed to pay US$6,625,000 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. The amended payments for the acquisition is to be made over a five-year period as follows:

	Payment USD	**Paid in CAD**
Upon signing	US$1,625,000	$ 1,592,175
February 28, 2009	1,000,000	1,247,520
June 1, 2010	250,000	266,353
June 1, 2011	500,000	488,043
June 1, 2012	750,000	
June 1, 2013	750,000	
June 1, 2014	750,000	
June 1, 2015	1,000,000	
	US$6,625,000	

During the year ended December 31, 2010, the Company negotiated an extension of the June 1, 2010 installment payment to August 31, 2010 for consideration of US$40,000 (paid - $41,060).

The amount payable to Augusta is secured by the Company's shareholdings in DHI and all present and after acquired assets of DHI and DHI US. As at September 30, 2011, the remaining balance due is US$3,250,000 and is without interest.

(Expressed in Canadian Dollars)

10. OTHER LIABILITIES (cont'd…)

The loan is being amortized using the effective interest rate method at an effective interest rate of 10.47% with a corresponding charge to interest expense with the following carrying amounts:

	September 30,	December 31, 2010
Payable to Augusta Resources Ltd.	$ 2,710,969	$ 2,887,076
Less: Current portion	(779,175)	(497,300)
Other liabilities	$ 1,931,794	$ 2,389,776

11. SHARE CAPITAL AND RESERVES

a) Authorized share capital

As September 30, 2011, the authorized share capital of the Company is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. All issued shares, consisting only of common shares are fully paid.

b) Issued share capital

On March 29, 2011, the Company completed a non-brokered private placement and issued 9,856,000 units at a price of $0.25 per unit for aggregate gross proceeds of $2,464,000. Each unit is comprised of one common share and one-half of one share purchase warrant whereby one whole warrant entitles the holder to purchase one additional common share of the Company for two years at an exercise price of $0.40; provided that if at any time after four months after closing the Company's common shares have a closing price equal to or higher than $0.50 per common share for 20 consecutive trading days, the Company may accelerate the expiry of the warrants to 10 days. In connection with the private placement, finder's fees totaled $49,174 in cash, 400,000 common shares and 196,700 share purchase warrants, with a fair value of $31,192, subject to the same exercise terms and conditions as the private placement warrants.

On October 19, 2010 and August 31, 2010, the Company completed a private placement of 3,333,333 units at a price of $0.15 per unit for gross proceeds of $500,000 in connection with the Solitario LOI (Note 1). Each unit is comprised of one common share and one-half of one share purchase warrant whereby one whole warrant entitles the holder to purchase one additional common share of the Company for two years after closing at an exercise price of $0.25; provided that if the Company's closing price is equal to or higher than $0.35 per common share for 20 consecutive trading days, the Company may give notice to the warrant holders by way of a news release that the warrants will expire 10 days after the news release. No finder's fee was paid in connection with the private placement.

(Expressed in Canadian Dollars)

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

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

On September 3, 2010 and August 18, 2010, the Company completed a non-brokered private placement and issued 2,293,000 units at a price of $0.15 per unit for aggregate gross proceeds of $343,950. Each unit is comprised of one common share and one-half of one share purchase warrant whereby one whole warrant entitles the holder to purchase one additional common share of the Company for two years after closing at an exercise price of $0.25; provided that if the Company's closing price is equal to or higher than $0.35 per share for 20 consecutive trading days, the Company may give notice to the warrant holders by way of a news release that the warrants will expire 10 days after the news release. In connection with the private placement, a finder's fee of $5,940 was paid in cash and 38,000 warrants with an exercise price of $0.25 subject to the same accelerated exercise provision as mentioned above were granted. The 38,000 finder's warrants issued were fair valued at $5,696.

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

c) Stock options

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

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

Expiry Date	Exercise Price	September 30, 2011	December 31, 2010
December 31, 2011	$ 0.29	50,000	50,000
May 8, 2012	$ 0.50	50,000	50,000
May 25, 2012	$ 0.50	150,000	150,000
February 26, 2015	$ 0.50	600,000	600,000
June 4, 2015	$ 0.20	750,000	750,000
July 7, 2015	$ 0.15	1,000,000	1,000,000
September 1, 2015	$ 0.15	1,000,000	1,000,000
January 4, 2016	$ 0.25	800,000	-
September 22, 2016	$ 0.20	1,500,000	-
Total		5,900,000	3,600,000

The weighted-average remaining contractual life for the outstanding options at September 30, 2011 is 4.11 (December 31, 2010 – 4.26) years.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND RESERVES (Cont`d...)

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

Stock option transactions are summarized as follows:

	September 30, 2011		December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	3,600,000	$ 0.24	2,680,000	$ 0.44
Granted	2,300,000	0.25	3,400,000	0.22
Exercised	-	-	(75,000)	0.20
Expired	-	-	(2,405,000)	0.44
Balance, end of period	5,900,000	$ 0.24	3,600,000	$ 0.24
Options exercisable, end of period	4,400,000	$ 0.24	3,600,000	$ 0.24

The fair value of stock options granted to consultants and vested during the period ended September 30, 2011 was $459,969 (2010 - $497,924) which was included in the statements of comprehensive loss. The fair value of stock options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	**2010**
Risk-free interest rate	2.0%	2.21%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	116%	152%
Expected life in years	5	5

The weighted average grant date fair value of stock options granted in 2011 was $0.18 (2010 - $0.22) per share.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND RESERVES (Cont`d...)

d) Warrants

As at September 30, 2011 and December 31, 2010, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	September 30, 2011	December 31, 2010
May 16, 2011	$ 0.25	-	2,050,000
August 4, 2012	$ 0.25	1,003,000	1,003,000
August 30, 2012	$ 0.25	833,333	833,333
August 31, 2012	$ 0.25	148,500	159,500
October 19, 2012	$ 0.25	833,333	833,333
February 28, 2013	$ 0.32	4,000,000	4,000,000
March 29, 2013	$ 0.40	5,124,000	-
		11,942,166	8,879,166

Share purchase warrant transactions are summarized as follows:

	September 30, 2011		December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	8,879,166	$ 0.24	2,050,000	$ 0.25
Granted	5,124,000	0.40	6,851,166	0.29
Exercised	(2,061,000)	0.25	(22,000)	0.25
Expired	-	-	-	-
Balance, end of period	11,942,166	$ 0.34	8,879,166	$ 0.24

The fair value of warrants issued as compensation during the period ended September 30, 2011 was $0.16 (2010 - $Nil) estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	2.0%	-
Expected dividend yield	Nil	-
Expected stock price volatility	116%	-
Expected life in years	1.5	-

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS

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

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

During the period ended September 30, 2011 the Company entered into the following transactions with related parties:

(a) Paid or accrued companies controlled by directors/officers of the Company $449,166 (2010 - $201,451) for consulting services, which has been recorded in the statements of operations.

(b) Granted stock options to directors and key management personnel and recorded share-based compensation for the fair value of the options granted of $459,969 (2010 - $497,924).

(c) At September 30, 2011 $887,174 (December 31, 2010: $715,754) owing to companies controlled by directors/officers of the Company is included in accounts payable and accrued liabilities. The Company proposes to satisfy $600,000 in debt owed to three directors of the Company by issuing 2,400,000 common shares at $0.25 per common share. The proposed debt settlement is subject to acceptance by the shareholders.

All amounts due to related parties have repayment terms similar to the Company's other accounts payable. Interest is not charged on outstanding balances.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	2011	2010
Fair value of warrants allocated to mineral property interests	$ -	$ 1,136,000
Fair value of warrants issued as finders' fees	31,192	-
Shares received for mineral properties	136,250	-
Borrowing costs included in mineral properties	200,951	150,098
Mineral property costs included in accounts payable and accrued liabilities	$ -	$ 31,568

(Expressed in Canadian Dollars)

14. CONTINGENCY

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

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

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

15. SEGMENT INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of resource properties in two geographical locations, Canada and the United States as follows:

	September 30, 2011	December 31, 2010
Total Assets		
Canada	$ 2,857,985	$ 248,060
United States	8,460,251	4,234,017
	$ 11,318,236	$ 4,482,077
Capital Assets (including mineral properties)		
Canada	$ -	$ 1,165
United States	8,460,251	4,234,017
	$ 8,460,251	$ 4,235,182

16. SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2011:

The Company entered into two amending agreements with the holders of the senior secured notes ("Secured Notes") issued by Northern Star Mining ("NSM"). The amending agreements gives the Company the right to acquire up to $28,681,669, being 65% of the $41,093,488 outstanding Secured Notes, ten business days following the date on which title to the NSM assets is vested in the Secured Note holders by Court Order. The agreements, as amended, provide for the following:

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

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

The total cash due on closing under the first and second agreements is $500,000 and $6,116,491, respectively.

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

17. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these condensed consolidated interim financial statements are for the period covered by the Company's first nine month condensed consolidated interim financial statements prepared in accordance with IAS 34 and IFRS 1. The accounting policies in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the nine months ended September 30, 2011 and 2010, the consolidated financial statements for the year ended December 31, 2010 and the opening IFRS statement of financial position on January 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended September 30, 2011, the Company has adjusted amounts previously reported in financial statements that were prepared in accordance with Canadian GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS.

Optional Exemptions

The Company elected to take one IFRS 1 optional exemption. The Company elected to apply the requirements of IFRS 2, Share-based payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and

Mandatory Exceptions

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its GAAP estimates for the same date and as a result the Company has not used hindsight to revise estimates.

(Expressed in Canadian Dollars)

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

The reconciliation between GAAP and IFRS consolidated statement of financial position as at September 30, 2010 is provided below:

		September 30, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		$ 66,476	$ -	$ 66,476
Marketable securities		21,027	-	21,027
Receivables		26,222	-	26,222
Prepaids		44,444	-	44,444
		158,169	-	158,169
Equipment		1,521	-	1,521
Mineral Properties	(d)	10,696,490	(1,221,358)	10,545,505
	(e)		1,070,373	
		$ 10,856,180	$ (150,985)	$ 10,705,195
LIABILITIES ANDSHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		$ 234,205	$ -	$ 234,205
Current portion of other liabilities		514,900	-	514,900
		749,105	-	749,105
Other liabilities		2,358,962	-	2,358,962
Deferred income tax liability	(d)	1,283,685	(1,283,685)	-
		4,391,752	(1,283,685)	3,108,067
Equity				
Share capital		19,485,590	-	19,485,590
Share based payment reserve	(a)	3,865,158	(2,008,654)	1,856,504
Investment revaluation reserve		(59,918)	-	(59,918)
Subscription receivable		(37,500)	-	(37,500)
Deficit		(16,788,902)	3,141,354	(13,647,548)
		6,464,428	1,132,700	7,597,128
Total shareholders' equity and liabilities		$ 10,856,180	$ (150,985)	$ 10,705,195

(Expressed in Canadian Dollars)

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

The reconciliation between GAAP and IFRS comprehensive loss for the three months ended September 30, 2010 is provided below.

		Three Months Ended September 30, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
EXPENSES				
Consulting		$ 57,433	$ -	$ 57,433
Depreciation		356	-	356
Insurance		4,038	-	4,038
Office and administration		2,520	-	2,520
Professional fees		58,073	-	58,073
Rent		4,500	-	4,500
Share-based compensation		320,800	-	320,800
Telecommunications		822	-	822
Transfer agent and filing fees		7,037	-	7,037
Travel and promotion		4,978	-	4,978
		(460,557)	-	(460,557)
OTHER INCOME (EXPENSES)				
Interest expense	(e)	(74,331)	74,331	-
Gain on foreign exchange	(d)	148,641	(38,393)	110,248
		74,310	35,938	110,248
Loss for the period		(386,247)	35,938	(350,309)
Comprehensive loss				
Loss for the period		(386,247)	35,938	(350,309)
Increase in market value of marketable securities, net of deferred income taxes		(2,961)	-	(2,961)
Comprehensive loss for the period		$ (389,208)	$ 35,938	$ (353,270)

(Expressed in Canadian Dollars)

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

The reconciliation between GAAP and IFRS comprehensive loss for the Nine months ended September 30, 2010 is provided below.

		Nine Months Ended September 30, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
EXPENSES				
Consulting		$ 215,410	$ -	$ 215,410
Depreciation		1,068	-	1,068
Insurance		12,116	-	12,116
Office and administration		7,117	-	7,117
Professional fees		120,925	-	120,925
Rent		26,700	-	26,700
Share-based compensation		497,924	-	497,924
Telecommunications		2,962	-	2,962
Transfer agent and filing fees		34,632	-	34,632
Travel and promotion		32,775	-	32,775
		(951,629)	-	(951,629)
OTHER INCOME (EXPENSES)				
Interest expense	(e)	(224,429)	224,429	-
Gain on foreign exchange	(d)	13,769	37,629	51,398
		(210,660)	262,058	51,398
Loss for the period		(1,162,289)	262,058	(900,231)
Comprehensive loss				
Loss for the period		(1,162,289)	262,058	(900,231)
Increase in market value of marketable securities, net of deferred income taxes		8,563	-	8,563
Comprehensive loss for the period		$ (1,153,726)	$ 262,058	$ (891,668)

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

There are no significant differences between IFRS and GAAP in connection with the Company's statements of cash flows for the period ended September 30, 2010.

a) Share-based payments

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

b) Foreign currency translation

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

c) Reclassification with equity section

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

d) Deferred tax on mineral properties

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

As of the Transition Date and December 31, 2010, the Company has derecognized the impacts of all deferred taxes which had previously been recognized on the initial acquisition of the mineral properties through transactions deemed not to be business combinations and affecting neither accounting profit (loss) nor taxable profit (loss).

e) Borrowing costs

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

f) Mt. Hamilton Impairment

The adjustments in (d) and (e) were posted prior to a write-down to the fair value of the mineral property (note 7).