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

Consolidated Financial Statements
December 31, 2009 and 2008

Management’s Responsibility for Financial Reporting

The consolidated financial statements of Ely Gold & Minerals Inc. are the responsibility of the Company’s management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management’s best estimates and judgment based on information currently available.

Management has developed and is maintaining a system of internal controls to ensure that the Company’s assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated balance sheets as at December 31, 2009 and 2008 and consolidated statements of operations, shareholders’ equity and cash flows for the years then ended have been audited by Smythe Ratcliffe LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the Company’s consolidated financial statements.

“Stephen Kenwood” (signed)	*“Scott Kelly” (signed)*
Stephen Kenwood President	Scott Kelly Chief Financial Officer

April 28, 2010

Auditors' Report

TO THE SHAREHOLDERS OF ELY GOLD & MINERALS INC.
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Ely Gold & Minerals Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
April 12, 2010, except as to Note 18,
which is as of April 28, 2010.

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Ely Gold & Minerals Inc.
(An Exploration Stage Company)
Consolidated Balance Sheets
December 31

		2009		2008
Assets				
Current				
Cash	$	243,050	$	636,333
Short-term investments		-		2,320,831
Marketable securities (note 7)		12,464		12,217
Amounts receivable		3,670		54,623
Prepaid expenses (note 13)		41,771		35,663
		300,955		3,059,667
Equipment (note 9)		2,589		5,754
Mineral Property Interests (notes 4 and 10)		9,196,286		8,293,238
	$	9,499,830	$	11,358,659
Liabilities				
Current				
Accounts payable and accrued liabilities (note 13)	$	137,237	$	137,270
Current portion of other liabilities (note 11)		261,650		1,224,600
		398,887		1,361,870
Other Liabilities (note 11)		2,736,167		3,763,526
Future Income Tax (note 14)		1,246,056		1,526,512
		4,381,110		6,651,908
Shareholders' Equity				
Share Capital (note 12)		18,561,078		18,561,078
Contributed Surplus		2,252,735		2,054,665
Accumulated Other Comprehensive Income (Loss)		(68,480)		(68,727)
Deficit		(15,626,613)		(15,840,265)
		5,118,720		4,706,751
	$	9,499,830	$	11,358,659

Going Concern (note 2)
Contingency (note 15)
Commitments (note 17)
Subsequent events (note 18)

Approved on behalf of 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.

(An Exploration Stage Company)
Consolidated Statements of Operations
For the years ended December 31

		2009		2008
Expenses				
Consulting (note 13)	$	258,415	$	198,219
Travel and promotion		215,368		387,254
Rent		57,600		57,600
Professional fees		54,178		109,842
Stock-based compensation (note 12(b))		51,619		225,346
Office supplies and services		22,528		29,841
Transfer agent and filing fees		20,881		25,855
Insurance		18,926		13,463
Telecommunications		4,222		7,707
Amortization		3,165		2,010
		(706,902)		(1,057,137)
Other Income (Expenses)				
Interest income		14,946		115,765
Interest expense (note 11)		(379,892)		(353,202)
Foreign exchange gain (loss)		784,163		(1,113,256)
Warrant expense (note 4)		(120,713)		-
Gain on extinguishment of loan (note 4)		563,478		-
		861,982		(1,350,693)
Income (Loss) Before Income Taxes		155,080		(2,407,830)
Future Income Tax Recovery (note 14)		58,572		-
Net Income (Loss) for the Year	$	213,652	$	(2,407,830)
Basic and Diluted Income (Loss) per Share	$	0.01	$	(0.06)
Weighted Average Number of Common Shares Outstanding – basic and diluted		39,169,912		39,089,364
Comprehensive Income (Loss)				
Net income (loss) for the year	$	213,652	$	(2,407,830)
Unrealized gain (loss) on marketable securities		247		(68,727)
Comprehensive Income (Loss)	$	213,899	$	(2,476,557)

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

	Share Capital		Contributed	Subscriptions	Accumulated Other Comprehensive		Total Shareholders'
	Shares	Amount	Surplus	Receivable	Income (Loss)	Deficit	Equity
Balance, December 31, 2007	39,019,912	$ 18,486,078	$ 1,159,775	$ (134,000)	$ -	$ (13,432,435)	$ 6,079,418
Shares issued during the year							
For acquisition of mineral property interests(note 4)	150,000	75,000	672,600	-	-	-	747,600
Amounts received for subscriptions receivable	-	-	(3,056)	134,000	-	-	130,944
Stock-based compensation (note 12(b))	-	-	225,346	-	-	-	225,346
Net loss for the year	-	-	-	-	-	(2,407,830)	(2,407,830)
Unrealized loss on marketable securities	-	-	-	-	(68,727)	-	(68,727)
Balance, December 31, 2008	39,169,912	18,561,078	2,054,665	-	(68,727)	(15,840,265)	4,706,751
Stock-based compensation (note 12(b))	-	-	74,339	-	-	-	74,339
Fair value of warrants issued (notes 4 and 12(c))	-	-	123,731	-	-	-	123,731
Unrealized gain on marketable securities	-	-	-	-	247	-	247
Net income for the year	-	-	-	-	-	213,652	213,652
Balance, December 31, 2009	39,169,912	$ 18,561,078	$ 2,252,735	$ -	$ (68,480)	$ (15,626,613)	$5,118,720

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

Ely Gold & Minerals Inc.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Net income (loss) for the period	$ 213,652	$ (2,407,830)
Items not involving cash:		
Amortization	3,165	2,010
Stock-based compensation	51,619	225,346
Unrealized foreign exchange (gain) loss	(781,088)	1,271,160
Warrant expense	120,713	-
Gain on extinguishment of debt	(563,478)	-
Non-cash interest expense	379,892	353,202
Future income tax recovery	(58,572)	-
Changes in operating assets and liabilities:		
Amounts receivable	50,953	(8,087)
Prepaid expenses	(6,108)	(16,902)
Accounts payable and accrued liabilities	63,782	289
Cash Used in Operating Activities	(525,470)	(580,812)
Investing Activities		
Redemption of short term investments	2,320,831	651,757
Expenditures and advances on mineral properties	(941,124)	(958,056)
Cash paid and direct costs for acquisition of business	-	(1,618,683)
Funds held in trust	-	1,482,150
Purchase of equipment	-	(7,764)
Cash Provided by (Used in) Investing Activities	1,379,707	(450,596)
Financing Activity		
Repayment of other liabilities	(1,247,520)	-
Receipt of subscription receivable	-	50,000
Cash Provided by (Used in) Financing Activities	(1,247,520)	50,000
Decrease in Cash	(393,283)	(981,408)
Cash, Beginning of Year	636,333	1,617,741
Cash, End of Year	$ 243,050	$ 636,333

Supplemental cash flow information (note 8)

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

1. NATURE OF BUSINESS

Ely Gold & Minerals Inc. (the "Company" or "Ely") was incorporated pursuant to the provisions of the *Business Corporations Act* (Alberta) on May 10, 1996. Since 2004 its principal business activity has been the acquisition, exploration and development of mineral properties.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Several adverse conditions cast substantial doubt on the validity of this assumption. The Company has incurred significant operating losses over the past several fiscal years, is currently unable to self-finance operations, has a working capital deficiency of $97,932 (2008 - working capital of $1,697,797), an accumulated deficit of $15,626,613 (2008 - $15,840,265), significant obligations, limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property interests. The Company's current working capital may not be sufficient to meet its commitments and continue exploration work on its mineral property interests in 2010.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and the continued financial support from its creditors and shareholders. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management's plan will be successful. Subsequent to December 31, 2009, the Company completed a private placement for gross proceeds of $300,000 (note 18).

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars, which is the Company's functional currency.

The consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, DHI Minerals Ltd. ("DHI") (a British Columbia corporation) and DHI Mineral (US) Ltd. ("DHI US") (a Nevada corporation) (note 4). All material intercompany transactions and balances have been eliminated.

(b) Short-term investments

Short-term investments are comprised of guaranteed investment certificates ("GICs") that have maturities of less than one year. Short-term investments are stated at cost plus accrued interest, which approximates market value.

3. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(c) Amortization

Amortization of equipment is recorded on a declining-balance basis at the following annual rates:

Computer equipment	- 45%
Computer software	- 55%

Additions during the year are amortized at one-half the annual rates.

(d) Mineral property interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. Costs accumulated relating to projects that are abandoned are written-off in the period in which a decision to discontinue the project is made.

All deferred mineral property expenditures are reviewed quarterly, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. Proceeds received on the sale or option of the Company's property is recorded as a reduction of the mineral property cost. The Company recognizes in income those costs that are recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

(f) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(g) Earnings (loss) per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(h) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Integrated foreign operations are translated using the temporal method. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Foreign currency translation (continued)

(iii) Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net income (loss) for the year.

(i) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(j) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for amortization of equipment, the recoverability of mineral property interests, determination of asset retirement and environmental obligations, valuation allowance for future income tax assets and the determination of the variables used in the calculation of stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(k) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The fair value of all marketable securities is determined by quoted market prices. Gains or losses on securities sold are based on the specific identification method.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(l) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after January 1, 2011. The effective date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year ended December 31, 2010. The Company has begun the planning and scoping phase of the transition to IFRS and intends to transition to IFRS financial statements during fiscal 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Future changes in accounting changes (continued)

(ii) Business Combinations (continued)

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

4. BUSINESS COMBINATION

On February 28, 2008, 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 Arrangement Agreement with Augusta Resources Ltd. ("Augusta") dated November 15, 2007. DHI US is the owner of a 100% interest in each of the Mount Hamilton property, the Shell property and the Monte Cristo property (note 10). The results of operations of DHI and DHI US have been included in the consolidated financial statements since February 28, 2008. As consideration for the acquisition, the Company paid 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 Company also issued 150,000 shares at a fair value of $0.50 per share as a finder's fee for the acquisition. Payment for the acquisition is to be made over a five-year period as follows:

Upon signing	US $1,625,000	(paid - CDN$1,592,175)
First Anniversary of the Agreement	1,000,000	(paid - CDN$1,247,520)
Second Anniversary	1,000,000	
Third Anniversary	1,000,000	
Fourth Anniversary	1,000,000	
Fifth Anniversary	1,000,000	
	US $6,625,000	

The fair value of the share purchase warrants granted of $672,000 were calculated using the Black-Scholes option pricing model using the following assumptions.

Risk-free interest rate	2.97%
Expected dividend yield	0.00%
Expected stock price volatility	94.2%
Expected life in years	1.5

4. BUSINESS COMBINATION (continued)

The acquisition was accounted for using the purchase method of accounting, with Ely being identified as the acquirer and DHI as the acquiree. In accordance with the purchase method of accounting, the purchase consideration $6,035,199 has been allocated to the fair value of the underlying assets acquired and liabilities assumed at the date of acquisition. Total consideration of $6,035,199 is as follows:

Cash payments (US$1,625,000)	$	1,592,175
Payable to Augusta Resources Ltd. (US$5,000,000 discounted at 10.47%)		3,668,916
Direct costs		26,508
Warrants and shares issued		747,600
Total consideration	$	6,035,199

The allocation of the purchase price to assets and liabilities acquired is as follows:

Mineral property interests	$	7,256,557
Future income tax		(1,221,358)
	$	6,035,199

On November 16, 2009, the Company entered into an amending agreement (the "Amendment") with Augusta in order to extend the remaining acquisition payments of US$4,000,000 under the original purchase agreement. Pursuant to the Amendment, the remaining acquisition payments are due as follows:

June 1, 2010	US $ 250,000
June 1, 2011	500,000
June 1, 2012	750,000
June 1, 2013	750,000
June 1, 2014	750,000
June 1, 2015	1,000,000
	US $4,000,000

As a result of the Amendment, the original loan agreement was treated as having been extinguished and a new loan agreement was entered into resulting in $563,478 gain on extinguishment recorded in the statement of operations in 2009.

As consideration for the extension, the Company issued 2,000,000 share purchase warrants to Augusta to purchase 2,000,000 common shares of the Company at the price of $0.25 per share for a period of 18 months expiring May 16, 2011. The fair value of the warrants valued at $120,713 has been recorded as a warrant expense in the statement of operations in 2009 with a corresponding credit to contributed surplus.

The fair value of the above 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

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classifies its financial instruments as follows:

- Cash and short-term investments as held-for-trading
- Marketable securities as available-for-sale
- Accounts payable and accrued liabilities and other liabilities as other financial liabilities

The carrying values of cash, short-term investments, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of other liabilities has been estimated based on market rates of interest.

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

(a) Fair value

The Company's measurement of fair value of financial instruments at December 31, 2009 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities	$ 12,464	$ 12,464	$ 0	$ 0

The Company's marketable securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

(b) Credit risk

The Company manages credit risk, in respect of cash and short-term investments by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution.

Concentration of credit risk exists with respect to the Company's cash and short-term investments as all amounts are held at a single Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2009	2008
Bank accounts	$ 243,050	$ 636,333
GICs	-	2,320,831
Total	$ 243,050	$ 2,957,164

The Company manages credit risk by purchasing highly liquid short-term investment-grade securities held with major financial institutions.

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has cash at December 31, 2009 in the amount of $243,050. At December 31, 2009, the Company had current liabilities of $398,887. As at December 31, 2009, the company had a working capital deficiency of $97,932. The Company requires additional financing to meet its commitments, and administrative overhead costs and continue exploration work on its mineral property interests into 2010.

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2009.

Due Date	Accounts Payable and Accrued Liabilities	Other Liabilities	Total
		(note 4)	
0 – 90 days	$ 137,237	$ -	$ 137,237
90 – 365 days	-	261,650	261,650
More than 1 year	-	3,924,750	3,924,750
	$ 137,237	$ 4,186,000	$ 4,323,637

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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.

The Company's other liabilities is not exposed to interest rate risk as it is carried at amortized cost.

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(d) Market risk (Continued)

(ii) Foreign currency risk

The Company incurs expenditures in Canada and the US and has a loan payable in US dollars. The functional and reporting currency of the Company is the Canadian dollar. Foreign exchange risk arises because the amount of the US dollar cash and payables will vary in Canadian dollar terms due to changes in exchange rates.

As at December 31, 2009, the Company has not hedged its exposure to currency fluctuations.

At December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		2009		2008
Held-for-trading (1)	$	13,875	$	340,536
Available-for-sale (2)		3,310		6,710
Other financial liabilities (3)		(2,880,298)		(5,052,804)
Total	$	(2,863,113)	$	(4,705,558)

(1) Includes cash and short-term investments
(2) Includes marketable securities
(3) Includes accounts payable and payable to Augusta Resources Ltd.

Based on the above net exposures as at December 31, 2009, a 10% change in the Canadian/US exchange rate will impact the Company's earnings by approximately $299,653. A 10% change in the Canadian/US exchange rate will not have a significant impact on the Company's other comprehensive income (loss).

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk on its marketable securities.

6. CAPITAL MANAGEMENT

The Company is an exploration stage company and this involves a high degree of risk. The Company has not determined whether its mineral property interests contain economically recoverable reserves of ore and currently has not earned any revenues from its mineral properties and, therefore, does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of share capital and debt. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

6. CAPITAL MANAGEMENT (Continued)

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests. 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.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing due to uncertain economic conditions.

There have been no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

7. MARKETABLE SECURITIES

The Company's investments have been classified as available-for-sale and consist of the following:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Melco China Resorts Holding Ltd.				
100,000 common shares	$ 65,000	$ 9,000	$ 65,000	$ 4,000
Citigroup Inc.				
1,000 common shares	15,944	3,464	15,944	8,217
	$ 80,944	$ 12,464	$ 80,944	$ 12,217

8. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Stock-based compensation allocated to mineral property interests	$ 22,720	$ -
Fair value of warrants allocated to mineral property interests	$ 3,018	$ -
Expenditures on mineral property interests included in accounts payable and accrued liabilities	$ 14,810	$ 78,625
Subscription receivable settled with marketable securities	$ -	$ 84,000

9. EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 2,496	$ 1,626	$ 870	$ 2,496	$ 561	$ 1,935
Computer software	5,268	3,549	1,719	5,268	1,449	3,819
	$ 7,764	$ 5,175	$ 2,589	$ 7,764	$ 2,010	$ 5,754

10. MINERAL PROPERTIES

	Mt. Hamilton	Shell	Monte Cristo	Gold Range	Total
Balance, December 31, 2007	$ -	$ -	$ -	$ -	$ -
Acquisition costs	122,390	119,916	-	62,784	305,090
Acquired in business combination (note 4)	6,530,901	725,656	-	-	7,256,557
	6,653,291	845,572	-	62,784	7,561,647
Deferred exploration costs					
Claims	12,125	-	-	8,122	20,247
Camp and exploration support	13,666	-	-	-	13,666
Drilling	278,568	-	-	-	278,568
Geological	351,361	-	27,519	-	378,880
Travel	39,272	-	958	-	40,230
Total deferred exploration costs for the year	694,992	-	28,477	8,122	731,591
Balance, December 31, 2008	$ 7,348,283	$ 845,572	$ 28,477	$ 70,906	$ 8,293,238

10. MINERAL PROPERTIES (Continued)

	Mt. Hamilton	Shell	Monte Cristo	Gold Range	Total
Balance, December 31, 2008	$ 7,348,283	$ 845,572	$ 28,477	$ 70,906	$ 8,293,238
Acquisition costs	3,018	156,786	30,250	78,540	268,594
Deferred exploration costs					
Claims	-	-	-	-	-
Camp and exploration support	16,376	-	-	-	16,376
Drilling	3,104	-	-	-	3,104
Geological	604,884	-	-	-	604,884
Travel	10,090	-	-	-	10,090
Total deferred exploration costs for the year	634,454	-	-	-	634,454
Balance, December 31, 2009	$ 7,985,755	$ 1,002,358	$ 58,727	$ 149,446	$ 9,196,286

10. MINERAL PROPERTIES (continued)

(a) Mount Hamilton property, Nevada

The Mount Hamilton property is subject to minimum advance royalty payments of US $100,000 per year until November 19, 2010 when the minimum royalty payments increase to US $300,000 per annum. Upon commencement of commercial production, a base rate of 3% net smelter returns royalty (“NSR”) is payable, subject to an increase whenever the price of gold is greater than US $400 per ounce. The NSR shall increase by one-half of 1% for each US $50 increment to a maximum of 8% NSR. Of the NSR, 1.5% can be bought down at any time prior to the date commercial production commences for US $2,000,000 (“First Royalty Reduction Option”).

On November 16, 2009, the Company negotiated an extension of the time permitted to make the US $100,000 advanced royalty payment otherwise required to be made by November 19, 2009. As consideration for the extension, the Company agreed to increase the amount of the payment from US $100,000 to US $110,000 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 fair value of the extension warrants were valued at $3,018 and has been included as part of 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 option life in years	1.5

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

(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).

(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 ($30,250 paid in 2009).

10. MINERAL INTERESTS (Continued)

(d) Gold Range property, Nevada

During the year ended December 31, 2008, the Company entered into a lease agreement with Gold Range Company ("Gold Range") of Carson, Nevada, for certain mineral claims located in White Pine County, Nevada. The claims are in close proximity to the Company's Mount Hamilton and Shell properties. The agreement provides Ely with the right to explore, develop and mine the property and is subject to a payment of US $60,000 (paid) upon signing of the Agreement and minimum advance royalty payments as follows:

August 15, 2009	US $ 70,000 ($78,540 paid)
August 15, 2010	US $100,000
August 15, 2011	US $150,000
August 15, 2012	US $150,000
August 15, 2013 and thereafter	US $200,000

The Company has the ability to pay up to one-half of the annual advance minimum royalty payments under the lease in Company shares, as may be agreed upon from time to time, at a price equal to the average closing price of the Company's shares over the 15 business days preceding the due date of the advance royalty payment. No shares will be issued at a price less than $0.22 per share.

The Company shall pay to Gold Range a production royalty of 2.75% of NSR in respect of all products other than gold and silver produced from the property. For gold and silver, the royalty will be a minimum of 2.5% of NSR and will increase 0.25% for each $50 increase in the per ounce price of gold over the base price of $500 per ounce, to a maximum of 4.75% of NSR. At any time prior to commencement of commercial production, the Company will have the option to "buy back" any portion of the royalty for gold and silver above 3% by paying to Gold Range $1.0 million per full percentage point.

(e) Title to mineral property interests

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 characteristics of many mining properties. The Company has investigated title to its mineral property interests and, to the best of its knowledge title to its properties is in good standing.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

10. MINERAL INTERESTS (Continued)

(f) Realization of assets

The investment in and expenditures on mineral property interests comprise a substantial portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

(g) Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

11. OTHER LIABILITIES

In consideration for the purchase of DHI, the Company is paying the purchase consideration of US $6,250,000 in instalments (note 4). The amount payable to Augusta is secured by the Company's shareholdings in DHI and all present and after acquired assets of DHI and DHI US. As at December 31, 2009, the remaining balance due is US$4,000,000 and is without interest.

	2009	**2008**
Payable to Augusta Resources Ltd.	$ 2,997,817	$ 4,988,126
Less: current portion	(261,650)	(1,224,600)
Total other liabilities	$ 2,736,167	$ 3,763,526

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.

12. SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares without nominal or par value

(b) Stock options

The Company has established a stock option plan (the "Plan"). A new Plan was approved and adopted by the shareholders during the year ended December 31, 2009. Options granted pursuant to the Plan will not exceed a term of ten years and are granted at an option price and other terms determined by the directors and in accordance with regulatory policies. The option price may be at a discount to market price, which discount will not, in any event, exceed that permitted by the TSX Venture Exchange.

The number of options granted is not to exceed a rolling ceiling of 10% of the issued and outstanding 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).

As at December 31, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	2009	2008
August 30, 2010	$0.20	900,000	900,000
November 14, 2010	$0.50*	200,000	200,000
May 3, 2011	$0.80	300,000	300,000
June 13, 2011	$0.50*	80,000	80,000
May 8, 2012	$0.50	50,000	50,000
May 25, 2012	$0.50	400,000	400,000
March 7, 2013	$0.50	150,000	150,000
March 26, 2011	$0.50	-	390,000
July 21, 2013	$0.40	200,000	200,000
June 3, 2014	$0.40	400,000	-
		2,680,000	2,670,000

* Exercise price of these options were decreased from $0.80 to $0.50 during the year.

Weighted-average remaining contractual life for the outstanding options at December 31, 2009 is 1.99 years.

12. SHARE CAPITAL (continued)

(b) Stock options (continued)

Stock option transactions and the number of stock options outstanding and exercisable are summarized as follows:

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,670,000	$ 0.46	1,930,000	$ 0.45
Granted	400,000	$ 0.40	740,000	$ 0.47
Forfeited	(390,000)	$ 0.40	-	$ -
Outstanding, end of year	2,680,000	$ 0.41	2,670,000	$ 0.46

The fair value of stock options granted and modified to consultants and vested during the year ending December 31, 2009 was $74,339 (2008 - $225,346) of which $51,619 ($225,346) was included in the statement of operations and $22,720 (2008 - $nil) was capitalized to mineral properties. The fair value of stock options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	1.65%	3.06%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	108.06%	138.56%
Expected life in years	5	4.5

The weighted average grant date fair value of stock options granted in 2009 was $0.11 per share (2008 - $0.32).

(c) Warrants

As at December 31, 2009 and 2008, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	2009	2008
August 28, 2009	$0.50	-	3,000,000
May 16, 2011	$0.25	2,050,000	-
		2,050,000	3,000,000

12. SHARE CAPITAL (continued)

(c) Warrants (continued)

Share purchase warrant transactions and the number of share purchase warrants outstanding are summarized as follows:

	2009		**2008**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,000,000	$0.50	-	$ -
Granted	2,050,000	$0.25	3,000,000	$0.50
Expired	(3,000,000)	$0.50	-	$ -
Outstanding, end of year	2,050,000	$0.25	3,000,000	$0.50

The fair value of warrants issued in 2009 was $123,731 (2008 - $nil) estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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

(d) Shares reserved for issuance

Shares reserved for issuance as at December 31, 2009 and 2008 are as follows:

	2009	**2008**
Stock options (note 12(b))	2,680,000	2,670,000
Warrants (note 12(c))	2,050,000	3,000,000
Shares reserved for issuance, end of year	4,730,000	5,670,000

13. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2009, the Company paid companies controlled by directors/officers of the Company $173,895 (2008 - $154,328) for consulting services, which has been recorded in the statement of operations.

(b) At December 31, 2009, $78,027 (2008 - $7,555) owing to companies controlled by directors/officers of the Company is included in accounts payable and accrued liabilities.

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

14. INCOME TAXES

The components of future income tax assets after applying enacted corporate rates are as follows:

	2009	2008
Future income tax assets		
Non-capital loss carry-forwards	$ 2,177,571	$ 1,117,982
Net capital losses	571,819	594,692
Tax value over book value of share issue costs	35,956	69,740
Tax value over book value of mineral property interests - Canada	1,033,868	1,065,905
Tax value over book value of other assets	9,854	9,458
	3,829,068	2,857,777
Valuation allowance	(3,829,068)	(2,857,777)
	0	0
Future income tax liability		
Book value over tax value of mineral property interests – U.S.	(1,246,056)	(1,526,512)
	$ (1,246,056)	$ (1,526,512)

The Company has capital losses of approximately $2,287,000 that may be carried forward indefinitely to apply against future years' taxable capital gains.

14. INCOME TAXES (continued)

The Company has approximately US $854,000 in non-capital losses that may be carried forward to apply against future years' income for US income tax purposes. The Company has accumulated non-capital losses for Canadian income tax purposes of approximately $8,710,300 that expire in various years to 2029 as follows:

Available to	Amount
2010	$ 885,600
2014	148,600
2025	335,700
2026	827,500
2027	3,896,200
2028	1,421,600
2029	1,195,100
	$ 8,710,300

Significant components of the provision for income taxes are as follows:

	2009	2008
Tax at statutory tax rates on loss (income)	$ (45,619)	$ 782,545
Tax effect of expenses that are not deductible (taxable) for income tax purposes		
Stock-based compensation	(15,485)	(73,237)
Share issue costs	58,364	86,054
Foreign exchange	234,326	(361,808)
Other non-deductible (taxable) amounts	126,941	(10,444)
Changes in timing differences	813,389	(191,144)
Effect on change in tax rate	(142,051)	(868,623)
Change in valuation allowance	(971,293)	636,657
Future income tax recovery	$ 58,572	$ -

15. 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.

15. CONTINGENCY (Continued)

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.

16. SEGMENTED 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.

	2009	2008
Total Assets		
Canada	$ 303,544	$ 3,025,594
United States	9,196,286	8,333,065
	$ 9,499,830	$ 11,358,659
Capital Assets (including mineral properties)		
Canada	$ 2,589	$ 5,754
United States	9,196,286	8,293,238
	$ 9,198,875	$ 8,298,992

17. COMMITTMENTS

During 2007, the Company and others entered into a lease agreement for the rental of office premises for a three-year period, expiring April 15, 2010. The Company's minimum annual rental payments are as follows:

2010	$16,800

18. SUBSEQUENT EVENTS

The following events occurred after December 31, 2009:

(a) 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 per share for total proceeds of $300,000.

(b) 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 (note 10(a)) and reduces the NSR to 6.5%, it will have the option to purchase an additional 1.75% NSR for a further $1.5 million 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 $1.5 million payment at any time prior to the date commercial production commences ("Third Royalty Reduction Option"), reducing the NSR to 3.0%.

In addition, the Company issued to the lessor share purchase warrants exercisable to purchase 4,000,000 common shares of the Company at a price of $0.32 per share to February 28, 2013. If commercial production has not commenced before the 60th day (the "Trigger Date") before the expiry date, then within 10 days following the Trigger Date, the Company will apply to the TSX Venture Exchange to extend the time period within which they may be exercised to February 28, 2015.

(c) Subsequent to December 31, 2009, the following events regarding stock options occurred:

(i) 750,000 options with an exercise price of $0.20 per share were forfeited.

(ii) 300,000 options with an exercise price of $0.80 per share were forfeited.

(iii) 400,000 options with an exercise price of $0.50 per share were forfeited.

(iv) 400,000 options with an exercise price of $0.40 per share were forfeited.

(v) On February 16, 2010, the Company granted 600,000 stock options to an officer and director exercisable at $0.50 per share expiring February 16, 2015.

(vi) 70,000 options were exercised for gross proceeds of $14,000.