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

Consolidated Financial Statements
December 31, 2010 and 2009

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Management's Responsibility for Financial Reporting

The consolidated financial statements of Ely Gold & Minerals Inc. (the "Company") 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, 2010 and 2009 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.

"Trey Wasser" (signed)

Trey Wasser
President and Chief Executive Officer

"Scott Kelly" (signed)

Scott Kelly
Chief Financial Officer

April 29, 2011

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Ely Gold & Minerals Inc. (an exploration stage company), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ely Gold & Minerals Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $7,812,558 during the year ended December 31, 2010 and, as of that date, the Company's current liabilities exceed its current assets by $1,151,641. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP
Chartered Accountants

Vancouver, British Columbia
April 29, 2011

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

	2010	2009
Assets (note 10)		
Current		
Cash	$ 196,538	$ 243,050
Marketable securities (note 6)	16,705	12,464
Amounts receivable	28,159	3,670
Prepaid expenses	5,493	41,771
	246,895	300,955
Equipment (note 8)	1,165	2,589
Mineral Property Interests (notes 3 and 9)	4,312,517	9,196,286
	$ 4,560,577	$ 9,499,830
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	$ 901,236	$ 137,237
Current portion of other liabilities (note 10)	497,300	261,650
	1,398,536	398,887
Other Liabilities (note 10)	2,389,776	2,736,167
Future Income Tax (note 13)	-	1,246,056
	3,788,312	4,381,110
Shareholders' Equity		
Share Capital (note 11)	19,735,394	18,561,078
Contributed Surplus	4,126,712	2,252,735
Accumulated Other Comprehensive Loss	(64,770)	(68,480)
Subscriptions Receivable	(15,000)	-
Deficit	(23,437,182)	(15,626,613)
Total Equity Attributable to Shareholders	345,154	5,118,720
Non-Controlling Interest (note 3)	427,111	-
	772,265	5,118,720
	$ 4,560,577	$ 9,499,830

Nature of Business and going concern (note 1)
Contingency (note 14)
Subsequent events (notes 16)

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

	2010	2009
Expenses		
Consulting (note 12)	$ 947,290	$ 258,415
Stock-based compensation (note 11(c))	753,783	51,619
Professional fees	207,848	54,178
Transfer agent and filing fees	42,584	20,881
Travel and promotion	41,651	215,368
Rent	31,200	57,600
Office supplies and services	28,145	22,528
Insurance	16,155	18,926
Telecommunications	3,756	4,222
Amortization	1,424	3,165
	(2,073,836)	(706,902)
Other Income (Expenses)		
Interest income	-	14,946
Interest expense	(337,279)	(379,892)
Foreign exchange gain	140,082	784,163
Warrant expense (note 10)	-	(120,713)
Gain on extinguishment of loan (note 10)	-	563,478
Write-down of mineral properties (notes 3 and 9)	(7,911,677)	-
	(8,108,874)	861,982
Income (Loss) Before Other Items	(10,182,710)	155,080
Gain arising on capital contributions by non-controlling interest (note 3)	1,123,566	-
	(9,059,144)	155,080
Income (Loss) Before Income Taxes		
Future income tax recovery (note 13)	1,246,586	58,572
Net Income (Loss) for the Year	$ (7,812,558)	$ 213,652
Net Income (Loss) for the Year attributable to:		
Non-controlling interest	$ (1,989)	$ -
Common shareholders	(7,810,569)	213,652
	$ (7,812,558)	$ 213,652
Basic and Diluted Income (Loss) per Share	$ (0.18)	$ 0.01
Weighted Average Number of Common Shares Outstanding – basic and diluted	42,732,985	39,169,912
Comprehensive Income (Loss)		
Net income (loss) for the year	$ (7,812,558)	$ 213,652
Increase in market value of marketable securities, net of future income taxes	3,710	247
Comprehensive Income (Loss) for the Year	$ (7,808,848)	$ 213,899

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

Ely Gold & Minerals Inc.
(An Exploration Stage Company)
Consolidated Statements of Shareholders' Equity

	Share Capital		Contributed	Subscriptions	Accumulated Other Comprehensive		Non-Controlling	Total Shareholders'
	Shares	Amount	Surplus	Receivable	Income (Loss)	Deficit	Interest	Equity
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 11(c))	-	-	74,339	-	-	-	-	74,339
Fair value of warrants issued (note 11(d))	-	-	123,731	-	-	-	-	123,731
Increase in market value of marketable securities, net of future income taxes	-	-	-	-	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
Shares issued during the year								
Private placements, net of issuance costs	7,626,333	1,132,314	-	-	-	-	-	1,132,314
Exercise of options	75,000	15,000	-	-	-	-	-	15,000
Exercise of warrants	22,000	5,500	-	-	-	-	-	5,500
Stock-based compensation (note 11(c))	-	-	753,783	-	-	-	-	753,783
Fair value of warrants issued (note 11(d))	-	-	1,141,696	-	-	-	-	1,141,696
Transfer of contributed surplus on exercise of options	-	21,502	(21,502)	-	-	-	-	-
Subscriptions receivable	-	-	-	(15,000)	-	-	-	(15,000)
Increase in market value of marketable securities, net of future income taxes	-	-	-	-	3,710	-	-	3,710
Non-controlling interest on incorporation	-	-	-	-	-	-	429,100	429,100
Net loss for the year	-	-	-	-	-	(7,810,569)	(1,989)	(7,812,558)
Balance, December 31, 2010	46,893,245	$19,735,394	$4,126,712	$ (15,000)	$ (64,770)	$(23,437,182)	$ 427,111	$ 772,265

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

	2010	2009
Operating Activities		
Net income (loss) for the year	$ (7,812,558)	$ 213,652
Items not involving cash:		
Amortization	1,424	3,165
Stock-based compensation	753,783	51,619
Unrealized foreign exchange gain	(140,610)	(781,088)
Warrant expense	-	120,713
Gain on extinguishment of debt	-	(563,478)
Non-cash interest expense	296,219	379,892
Write-down of mineral properties	7,911,677	-
Office supplies and services paid by non-controlling interest	19,892	-
Gain arising on capital contributions by non-controlling interest	(1,123,566)	-
Future income tax recovery	(1,246,586)	(58,572)
Changes in operating assets and liabilities:		
Amounts receivable	(24,489)	50,953
Prepaid expenses	36,278	(6,108)
Accounts payable and accrued liabilities	778,809	63,782
Cash Used in Operating Activities	(549,727)	(525,470)
Investing Activities		
Redemption of short-term investments	-	2,320,831
Expenditures on mineral properties	(373,945)	(941,124)
Cash Provided by (Used in) Investing Activities	(373,945)	1,379,707
Financing Activities		
Common shares issued for cash, net of issuance costs	1,143,510	-
Repayment of other liabilities	(266,350)	(1,247,520)
Cash Provided by (Used in) Financing Activities	877,160	(1,247,520)
Decrease in Cash	(46,512)	(393,283)
Cash, Beginning of Year	243,050	636,333
Cash, End of Year	$ 196,538	$ 243,050

Supplemental cash flow information (note 7)

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

1. NATURE OF BUSINESS AND GOING CONCERN

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.

On August 26, 2010, the Company signed a Letter of Intent ("LOI") with Solitario Exploration & Royalty Corp. ("Solitario") to make certain equity investments into Ely and to collaborate the development of Ely's Mount Hamilton and Monte Cristo properties. On December 22, 2010, the Company entered into a Limited Liability Company Operating Agreement with Solitario ("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 3).

The Company reported a net loss of $7,812,558 (2009 – net income of $213,652) for the year ended December 31, 2010, at December 31, 2010 has a working capital deficit of $1,151,641 (2009 - $97,932), an accumulated deficit of $23,437,182 (2009 - $15,626,613), limited resources and no source of operating cash flow. The Company's current working capital is not sufficient to meet its financial obligations and administrative overhead costs in 2011.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, 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.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise equity, generate future profitable operations and receive continued financial support from its exploration partners and shareholders. Management is actively seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material. Subsequent to December 31, 2010, the Company completed a private placement for gross proceeds of $2,464,000 (note 16(b)).

2. 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 and reporting 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), DHI Mineral (US) Ltd. ("DHI US") (a Nevada corporation), and its 90% owned subsidiary, MH-LLC, from December 22, 2010 (note 3). All material intercompany transactions and balances have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of presentation (continued)

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.

(b) Adoption of new accounting policy

Consolidated Financial Statements, Business Combinations and Non-Controlling Interests

Effective January 1, 2010, the Company early adopted Canadian Institute of Chartered Accountants' Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests".

Sections 1582 and 1602 require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests to 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.

The Company has accounted for its investment in MH-LLC in accordance with these standards (see note 3).

(c) Equipment

Equipment is recorded at cost less amortization using the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 operations those costs that are recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

(e) Unit offering

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated entirely to common shares.

(f) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 fair value is recognized over the vesting period, and for non-employees the fair value is 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.

(h) Earnings (loss) per share

Basic earnings (loss) 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 (loss) 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.

(i) Foreign currency translation

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

(iii) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 substantively enacted. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(k) 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.

(l) 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 operations. 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.

When a decline in the fair value of an available-for-sale financial asset has been recognized in comprehensive income (loss), and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized in accumulated other comprehensive income (loss) is removed from accumulated other comprehensive income (loss) and recognized in operations even though the financial asset has not been de-recognized.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

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).

(m) Future accounting change

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS. The IFRS standards will be effective for the Company for interim and annual financial statements beginning on 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 is in the planning and scoping phase of the transition to IFRS and is in the process of selecting accounting policies. The Company will prepare IFRS financial statements for its first quarter of fiscal 2011.

3. 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 Ely (issued);

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

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

(d) Additional Subscriptions
Solitario to subscribe for three additional tranches of common shares of Ely:
(i) US$750,000 of common shares at a price equal to the 20-day weighted moving average price on the TSX Venture Exchange (the "Exchange") (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.

3. INVESTMENT IN MT. HAMILTON LLC (continued)

(e) Phase I Earn-in
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.

(f) Phase II Earn-in
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 Earn-in
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% net smelter return royalty ("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 80% of DHI US's share of distributions from MH-LLC.

3. INVESTMENT IN MT. HAMILTON LLC (continued)

For the period 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. Prior to the BFS, Solitario is funding all costs and this has resulted in a gain of $1,123,566 arising on capital contribution by Solitario in the Company's statement of operations.

The amount of non-controlling interest as at December 31, 2010 is as follows:

		2010
Initial contribution by Solitario	$	302,400
Share of additional capital contributions		126,700
Non-controlling interest share of net loss		(1,989)
	$	427,111

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classifies its financial instruments as follows:

- Cash 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 and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of marketable securities has been based on market prices. The carrying value of other liabilities 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, 2010 and 2009 in accordance with the fair value hierarchy is as follows:

2010		Total		Level 1		Level 2		Level 3
Assets								
Marketable securities	$	16,705	$	16,705	$	0	$	0

2009		Total		Level 1		Level 2		Level 3
Assets								
Marketable securities	$	12,464	$	12,464	$	0	$	0

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of cash, by placing its cash balances at a major Canadian financial institution.

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

	2010	2009
Cash	$ 196,538	$ 243,050

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2010, the Company has cash of $196,538 (2009 - $243,050), current liabilities of $1,398,536 (2009 - $398,887) and a working capital deficiency of $1,151,641 (2009 - $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 2011. Subsequent to December 31, 2010, the Company completed a private placement for gross proceeds of $2,464,000 (note 16(b)).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2010.

Due Date	Accounts Payable and Accrued Liabilities	Other Liabilities (note 10)	Total
0 – 90 days	$ 901,236	$ -	$ 901,236
90 – 365 days	-	497,300	497,300
More than 1 year	-	2,389,776	2,389,776
	$ 901,236	$ 2,887,076	$ 3,788,312

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(d) Market risk

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

(i) Interest rate risk

Interest rate risk consists of two components:

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

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's other liabilities are not exposed to interest rate risk, as they are carried at amortized cost.

(ii) Foreign currency risk

The Company incurs expenditures in Canada and the US and has a loan payable in US dollars. Foreign currency 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, 2010, the Company has not hedged its exposure to currency fluctuations.

At December 31, 2010 and 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		2010		**2009**
Cash	US$	1,946	US$	13,875
Marketable securities		4,730		3,310
Other financial liabilities (1)		(2,989,971)		(2,880,298)
Total	US$	(2,983,295)	US$	(2,863,113)

(1) Includes accounts payable and amounts payable to Augusta Resources Ltd.

Based on the above net exposures as at December 31, 2010, a 10% change in the Canadian/US exchange rate will impact the Company's earnings by approximately $296,719.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(d) Market risk (continued)

(iii) Other price risk

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

5. CAPITAL MANAGEMENT

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

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

There have been no changes to the Company's approach to capital management during the year.

6. MARKETABLE SECURITIES

The Company's investments comprise the following:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Melco China Resorts Holding Ltd.				
100,000 common shares	$ 65,000	$ 12,000	$ 65,000	$ 9,000
Citigroup Inc.				
1,000 common shares	15,944	4,705	15,944	3,464
	$ 80,944	$ 16,705	$ 80,944	$ 12,464

7. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Cash items		
Interest paid	$ 41,060	$ -
Income taxes paid	$ -	$ -
Non-cash items		
Stock-based compensation allocated to mineral property interests	$ -	$ 22,720
Fair value of warrants allocated to mineral property interests	$ 1,136,000	$ 3,018
Fair value of warrants allocated to share issue costs	$ 5,695	$ -
Expenditures on mineral property interests included in accounts payable and accrued liabilities	$ -	$ 14,810
Common shares issued with subscriptions receivable	$ 15,000	-
Expenditures on mineral property interests paid by non-controlling interest	$ 1,532,773	$ -

8. EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 2,496	$ 2,104	$ 392	$ 2,496	$ 1,626	$ 870
Computer software	5,268	4,495	773	5,268	3,549	1,719
	$ 7,764	$ 6,599	$ 1,165	$ 7,764	$ 5,175	$ 2,589

9. MINERAL PROPERTIES

	Mount Hamilton	Shell	Monte Cristo	Gold Range	Total
Balance, December 31, 2009	$ 7,985,755	$ 1,002,358	$ 58,727	$ 149,446	$ 9,196,286
Acquisition costs	1,873,510	-	26,500	-	1,900,010
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 impairment	10,987,163	1,002,358	85,227	149,446	12,224,194
Impairment	(6,714,430)	(962,574)	(85,227)	(149,446)	(7,911,677)
Balance, December 31, 2010	$ 4,272,733	$ 39,784	$ -	$ -	$ 4,312,517

9. MINERAL PROPERTIES (continued)

	Mount 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					
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

9. 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% 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 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%.

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.

9. MINERAL INTERESTS (continued)

(a) Mt. Hamilton property, Nevada (continued)

The fair value of the NSR reduction warrants were valued at $1,136,000 and was included as mineral properties. The fair value of the reduction warrants is 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, 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 $ 6,714,430 to the Mount Hamilton property.

(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 subsequent to December 31, 2010, 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.

(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).

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 ("Gold Range") 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.

9. MINERAL INTERESTS (continued)

(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.

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.

(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.

The amounts shown for acquisition and exploration costs represent costs incurred to date and do not necessarily reflect present or future values.

(g) Environmental matters

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.

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 issue 3,000,000 share purchase warrants (issued) with an exercise price of $0.50 per share, exercisable for 18 months from the date of the agreement. Payment for the acquisition is to be made over a five-year period as follows:

Upon signing	US$1,625,000	(paid - $1,592,175)
February 28, 2009	1,000,000	(paid - $1,247,520)
June 1, 2010	250,000	(paid - $266,353)
June 1, 2011	500,000	(paid – note 16(c))
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	

The amendment of the agreement on November 16, 2009, extended the loan repayments for which the Company issued 2,000,000 share purchase warrants to Augusta to purchase 2,000,000 common shares of the Company at the price of $0.25 per share for a period of 18 months expiring May 16, 2011. The fair value of the warrants was valued using the Black-Scholes option pricing model estimated at $120,713 and 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

The amendment was treated as an extinguishment of the original loan and an issue of a new loan agreement resulting in a $563,478 gain on extinguishment recorded in the statement of operations in 2009.

During the year ended December 31, 2010, the Company negotiated an extension of the June 1, 2010 instalment 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 December 31, 2010, the remaining balance due is US$3,750,000 and is without interest.

10. OTHER LIABILITIES (continued)

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:

		2010		2009
Payable to Augusta Resources Ltd.	$	2,887,076	$	2,997,817
Less: Current portion		(497,300)		(261,650)
Other liabilities	$	2,389,776	$	2,736,167

11. SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares without par value

(b) Issued

(i) 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 3(a)). 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.

(ii) 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.

(iii) 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.

11. SHARE CAPITAL

(c) Stock options

The Company has established a stock option plan (the "Plan"). 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 number of options granted cannot exceed 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, 2010 and 2009, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	**2010**	**2009**
August 30, 2010	$ 0.20	-	900,000
November 14, 2010	$ 0.50	-	200,000
May 3, 2011	$ 0.80	-	300,000
June 13, 2011	$ 0.50	-	80,000
December 31, 2011	$ 0.29	50,000	-
May 8, 2012	$ 0.50	50,000	50,000
May 25, 2012	$ 0.50	150,000	400,000
March 7, 2013	$ 0.50	-	150,000
July 21, 2013	$ 0.40	-	200,000
June 3, 2014	$ 0.40	-	400,000
February 26, 2015	$ 0.50	600,000	-
June 4, 2015	$ 0.20	750,000	-
July 7, 2015	$ 0.15	1,000,000	-
September 1, 2015	$ 0.15	1,000,000	-
Total		3,600,000	2,680,000

The weighted-average remaining contractual life for the outstanding options at December 31, 2010 is 4.26 (2009 - 1.99) years.

11. SHARE CAPITAL (continued)

(c) Stock options (continued)

Stock option transactions are summarized as follows:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,680,000	$ 0.44	2,670,000	$ 0.46
Granted	3,400,000	$ 0.22	400,000	$ 0.40
Exercised	(75,000)	$ 0.20	-	-
Forfeited	(2,330,000)	$ 0.45	(390,000)	$ 0.40
Expired	(75,000)	$ 0.20	-	-
Outstanding, end of year	3,600,000	$ 0.24	2,680,000	$ 0.44

The fair value of stock options granted and modified to consultants and vested during the year ended December 31, 2010 was $753,783 (2009 - $74,339) of which $753,783 (2009 - $51,619) was included in the statements of operations and $nil (2009 - $22,720) 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:

	2010	2009
Risk-free interest rate	2.03%	1.65%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	149.87%	108.06%
Expected life in years	4.94	5

The weighted average grant date fair value of stock options granted in 2010 was $0.22 (2009 - $0.11) per share.

As at December 31, 2010 and 2009, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	2010	2009
May 16, 2011	$ 0.25	2,050,000	2,050,000
August 4, 2012	$ 0.25	1,003,000	-
August 30, 2012	$ 0.25	833,333	-
August 31, 2012	$ 0.25	159,500	-
October 19, 2012	$ 0.25	833,333	-
February 28, 2013	$ 0.32	4,000,000	-
		8,879,166	2,050,000

11. SHARE CAPITAL (continued)

(d) Warrants

Share purchase warrant transactions are summarized as follows:

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,050,000	$ 0.25	3,000,000	$ 0.50
Granted	6,851,166	$ 0.29	2,050,000	$ 0.25
Exercised	(22,000)	$ 0.25	-	-
Expired	-	-	(3,000,000)	$ 0.50
Outstanding, end of year	8,879,166	$ 0.28	2,050,000	$ 0.25

The fair value of warrants issued as compensation in 2010 was $1,141,696 (2009 - $123,731) estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	1.21%	1.31%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	141.5%	164%
Expected life in years	3.0	1.5

(e) Shares reserved for issuance

Shares reserved for issuance as at December 31, 2010 and 2009 are as follows:

	2010	2009
Stock options (note 11(c))	3,600,000	2,680,000
Warrants (note 11(d))	8,879,166	2,050,000
Shares reserved for issuance, end of year	12,479,166	4,730,000

12. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2010, the Company paid companies controlled by directors/officers of the Company $333,333 (2009 - $173,895) for consulting services, which has been recorded in the statements of operations.

(b) During the year ended December 31, 2010, the Company accrued bonuses payable to companies controlled by directors/officers of the Company of $600,000 (2009 - $nil) for consulting services, which has been recorded in the statement of operations. Refer to note 16(d).

(c) At December 31, 2010, $715,754 (2009 - $78,027) 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. 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. INCOME TAXES

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

	2010	2009
Future income tax assets		
Non-capital loss carry-forwards	$ 3,819,525	$ 2,177,571
Net capital losses	580,410	571,819
Tax value over book value of share issue costs	1,150	35,956
Tax value over book value of mineral property interests - Canada	1,879,391	1,033,868
Tax value over book value of other assets	8,191	9,854
	6,288,667	3,829,068
Valuation allowance	(6,288,667)	(3,829,068)
	-	-
Future income tax liability		
Book value over tax value of mineral property interests – US	-	(1,246,056)
	$ -	$ (1,246,056)

The Company has capital losses of approximately $2,322,000 for Canadian income tax purposes that may be carried forward indefinitely to apply against future years' taxable capital gains.

13. INCOME TAXES (continued)

The Company has approximately US $3,920,000 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 $9,623,000. These non-capital losses expire in various years as follows:

Available to	US	Canada
2014	$ -	$ 149,000
2015	-	335,000
2016	318,000	-
2017	436,000	-
2020	3,166,000	-
2026	-	827,000
2027	-	3,896,000
2028	-	1,425,000
2029	-	1,214,000
2030	-	1,777,000
	$ 3,920,000	$ 9,623,000

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

	2010	**2009**
Tax at statutory tax rates on loss (income)	$ 2,581,856	$ (45,619)
Non-deductible items	(286,398)	(15,485)
Changes in timing differences	1,183,194	1,233,020
Foreign tax rates different from statutory rates	212,051	
Effect on change in tax rate	15,482	(142,051)
Change in valuation allowance	(2,459,599)	(971,293)
Future income tax recovery	$ 1,246,586	$ 58,572

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.

14. CONTINGENCY (continued)

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. 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 as follows:

		2010		2009
Total Assets				
Canada	$	248,060	$	303,544
United States		4,312,517		9,196,286
	$	4,560,577	$	9,499,830
Capital Assets (including mineral properties)				
Canada	$	1,165	$	2,589
United States		4,312,517		9,196,286
	$	4,313,682	$	9,198,875

16. SUBSEQUENT EVENTS

The following events occurred after December 31, 2010:

(a) On January 5, 2011, the Company granted 800,000 stock options to purchase common shares of the Company exercisable until January 5, 2016 at an exercise price of $0.25.

(b) 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 $49,175 in cash, 400,000 common shares and 176,000 share purchase warrants subject to the same exercise terms and conditions as the private placement warrants.

16. SUBSEQUENT EVENTS (continued)

(c) On March 29, 2011, the Company advanced the acquisition payment of US$500,000 ($488,043) due on or before June 1, 2011 to Augusta.

(d) On February 18, 2011, the Company announced its plans 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.

(e) The Company's wholly-owned subsidiary transferred the Shell property into MH-LLC for US$40,000.

(f) The Company entered into two separate agreements giving it the right to acquire up to $28,681,669, being 65% of the $41,093,488 outstanding senior secured notes ("Notes") issued by Northern Star Mining.

(i) Under the first agreement, the Company has agreed to purchase $7,500,000 in Notes as follows:
- issue 10,000,000 common shares for $2,500,000 in Notes;
- pay $500,000 in cash for a call option to purchase on or before March 1, 2012 $5,000,000 in 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 Notes as follows:
- pay $4,806,634 in cash for $4,806,634 in Notes;
- pay $1,309,857 in cash for a call option to purchase on or before March 31, 2012 $14,375,034 in 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 Exchange approval, and to further due diligence by the Company.