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

Consolidated Financial Statements
June 30, 2010 and 2009

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

		June 30 2010		December 31 2009
		(unaudited)		(audited)
Assets				
Current				
Cash	$	35,070	$	243,050
Marketable securities (note 7)		23,988		12,464
Amounts receivable		8,358		3,670
Prepaid expenses (note 12)		42,930		41,771
		110,346		300,955
Equipment		1,877		2,589
Mineral Property Interests (notes 4 and 9)		10,575,679		9,196,286
	$	10,687,902	$	9,499,830
Liabilities				
Current				
Accounts payable and accrued liabilities (note 12)	$	192,798	$	137,237
Current portion of other liabilities (note 10)		795,450		261,650
		988,248		398,887
Other Liabilities (note 10)		2,395,250		2,736,167
Future Income Tax (note 13)		1,322,078		1,246,056
		4,705,576		4,381,110
Shareholders' Equity				
Share Capital (note 11)		18,897,580		18,561,078
Accumulated Other Comprehensive Income (Loss)		(56,956)		(68,480)
Contributed Surplus		3,544,357		2,252,735
Deficit		(16,402,655)		(15,626,613)
		5,982,326		5,118,720
	$	10,687,902	$	9,499,830

Going Concern (note 2)
Contingency (note 14)
Subsequent events (note 16)

Approved on behalf of the Board:

"Ronald Husband"
………………………………………… Director
Ronald Husband

"Stephen Kenwood"
…………………………………………… Director
Stephen Kenwood

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

Ely Gold & Minerals Inc.
(An Exploration Stage Company)
Consolidated Statements of Operations
For the six months ended June 30

	Three Months Ended June 30		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
	(unaudited)	(unaudited)	(unaudited	(unaudited)
Expenses				
Stock-based compensation	$ 132,848	$ 16,234	177,124	$ 45,133
Consulting	95,000	49,515	157,977	104,834
Professional fees	56,132	3,986	62,852	24,396
Rent	5,400	14,400	22,200	31,200
Office supplies and services	2,205	5,765	4,597	12,545
Transfer agent, listing and filing fees	7,577	6,271	27,595	14,000
Insurance	4,039	4,039	8.078	10,849
Telecommunications	1,189	634	2,140	1,279
Travel and promotion	2,772	69,358	27,797	148,472
Amortization	356	-	712	3,165
	(307,518)	(170,202)	(491,072)	(395,873)
Other Income (Expenses)				
Interest income	-	4,013	-	13,181
Interest expense	(77,099)	(95,608)	(150,098)	(210,628)
Foreign exchange gain (loss)	(240,965)	462,172	(134,872)	285,948
	(318,064)	376,577	(284,970)	88,501
Net income (loss) for Period	(625,582)	206,375	(776,042)	(307,372)
Deficit, Beginning of Period	(15,777,073)	(16,354,012)	(15,626,613)	(15,840,265)
Deficit, End of Period	$ (16,402,655)	$ (16,147,637)	$ (16,402,655)	$ (16,147,637)
Gain/(loss) per Share	$ (0.015)	$ 0.01	$ (0.018)_	$ (0.02)
Weighted Average Number of Common Shares Outstanding	40,887,177	39,169,912	40,887,177	39,169,912
Other Comprehensive Loss				
Net income/(loss) for the year	$ (625,582)	$ 206,375	$ (776,042)	$ (307,372)
Unrealized gain/(loss) on securities	(19,655)	10,606	11,524	9,420
Comprehensive Loss	**$ (645,237)**	**$ 216,981**	**$ (764,518)**	**$ (297,952)**
Other Comprehensive Loss				
Net income/(loss) for the year	$ 206,375	$ (226,303)	$ (307,372)	$ (745,988)
Unrealized gain/(loss) on securities	10,606	-	9,420	-
Comprehensive Loss	**$ 216,981**	**$ (226,303)**	**$ (297,952)**	**$ (745,988)**

The 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					
	Shares	Amount	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2008	39,169,912	18,561,078	2,054,665	(15,840,265)	(68,727)	4,706,751
Stock-based compensation (note 11(c))	-	-	74,339	-	-	74,339
Fair value of warrants issued (notes 4 and 11(d))	-	-	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	$ (15,626,613)	$ (68,480)	$5,118,720
Shares issued for cash:						
Private placements (note 11(b))	2,000,000	300,000	-	-	-	300,000
Exercise of stock options	75,000	15,000	-	-	-	15,000
Transfer of contributed surplus to share capital on exercise of warrants	-	21,502	(21,502)	-	-	-
Stock-based compensation (note 11(c))	-	-	177,124	-	-	177,124
Fair value of warrants issued (notes 9(a) and 11(d))	-	-	1,136,000	-	-	1,136,000
Unrealized gain on marketable securities	-	-	-	-	11,524	11,524
Net income for the year	-	-	-	(776,042))	-	(776,042)
Balance, June 30, 2010	41,244,912	$ 18,897,580	$ 3,544,357	$ (16,402,655)	$(56,956)	$5,982,326

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

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

For the six months ended June 30, 2010 and 2009

	Three Months Ended June 30		Nine Months Ended June 30	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating Activities				
Net income/(loss) for the period	$ (625,582)	$ 206,375	$ (776,042)	$ (307,372)
Items not involving cash:				
Amortization	356	-	712	3,165
Stock-based compensation	132,848	16,234	177,124	45,133
Unrealized foreign exchange (gain)/loss	214,504	(422,165)	118,807	(243,817)
Non-cash interest expense	77,099	95,608	150,098	210,628
Changes in operating assets and liabilities:				
Amounts receivable	(1,628)	38,942	(4,688)	36,670
Prepaid expenses	12,590	2,989	(1,159)	(10,757)
Accounts payable and accrued liabilities	46,425	(20,902)	23,993	(63,945)
Total cash flows used in Operating Activities	(143,388)	(82,919)	(311,155)	(330,295)
Investing Activities				
Redemption (purchase) of short term investments	-	819,693	-	2,070,809
Expenditures and advances on mineral properties	(36,791)	(448,595)	(211,825)	(628,320)
Cash paid and direct costs for acquisition of business	-	-	-	(1,247,520)
Total cash flows used in Investing Activities	(36,791)	371,098	(211,825)	194,969
Financing Activities				
Proceeds from issuance of common shares, net of issue costs	-	-	315,000	-
Receipt of subscription receivable	-	-	-	-
Cash Provided by Financing Activities	-	-	315,000	-
Increase / (Decrease) in Cash and Cash Equivalents	(180,179)	288,179	(207,980)	(135,326)
Cash and Cash Equivalents, Beginning of Period	215,249	212,828	243,050	636,333
Cash and Cash Equivalents, End of Period	$ 35,070	$ 501,007	$ 35,070	$ 501,007

Supplemental disclosure with respect to cash flows (note 8).

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 $807,902 (2009 - $408,206), an accumulated deficit of $16,402,655 (2009 - $16,147,637), 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.

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.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of amounts shown for mineral property interests is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of its mineral property interests.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods consistent with those used in preparation of the most recent annual audited consolidated financial statements except as noted below. The interim consolidated financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2009.

Future accounting policies applicable to the Company are as follows:

(a) 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. IFRS uses a conceptual framework similar to Canadian GAAP, however there may be significant differences in recognition, measurement and disclosures required by some companies.

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 is performing a detailed analysis of the differences between IFRS and the Company's accounting policies as well as an assessment of the impact of various alternatives is being carried out. The IFRS project plan is being completed in four phases: analysis, identification of changes, solution development and implementation where necessary.

The Company is in the preproduction stage and therefore has not yet adopted accounting policies that a producing company needs. In a number of cases, the Company will be adopting IFRS as an initial policy, rather than a change from existing policies to IFRS. The current analysis indicates that there will be very little effect on financial reporting as a result of the adoption of IFRS.

Some of the specific areas reviewed and considered to date are:

Revenue Recognition: As the Company has never ahd an revenue to report, it will adopting appropriate policies to satisfy IFRS policies.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment: IFRS requires that the Company identify different components of its fixed assets. As this has been the Company's practice, compliance will not result in a change. Assets have been identified in accordance with their useful lives in order to properly amortize their cost to operations.

IFRS allows the revaluation of assets at fair value. The current book values of equipment are sufficiently close to fair value that no adjustment is considered necessary.

The carrying costs of the Company's mineral properties reflect both the acquisition cost and the exploration expenses to date. IFRS permits the capitalization of exploration costs prior to the establishment of ore reserves which would support the economic viability of the project. No significant impact is expected.

Contributed Surplus: There are a number of small presentation and disclosure differences between Canadian GAAP and IFRS. The small differences noted are not expected to have a significant difference on the Company. However, the 'Contributed Surplus' should be described as 'Other reserves' or 'Share-based payment reserves' under IFRS.

Stock-based compensation: There are a number of differences in accounting for stock-based compensation however the differences depend on the contractual nature of the stock based compensation and are not expected to have a material impact on the Company. No significant impact is expected.

Financial Instruments: The Company's current financial instruments are simple and require no analysis.

Impairment tests: Impairment tests have been applied on the carrying value of projects on a quarterly basis, as required under Canadian GAAP. Although the methodology of testing for impairment under IFRS is slightly different, no complications are expected on the transition to IFRS,

Income Taxes: An analysis of IFRS requirements will be done when the new standards become available. With no current revenues or taxable income, and with no anticipated contentious issues regarding the tax value of assets or non-capital losses carried forward, no complications are anticipated.

Financial Disclosure: Based on publications to date, none of the requirements to comply with reporting under IFRS presents any foreseeable difficulty.

In summary, an analysis of the requirements for making the transition to IFRS and the subsequent compliance for financial reporting purposes indicates there should not be any difficulty, due to the simplicity of the Company's current operations and the fact that IFRS will be adopted as initial policy in most cases, rather than a change from an existing policy.

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. The price of the acquisition was US $6,625,000 plus the issuance of 3,000,000 share purchase warrants with an exercise price of $0.50, exercisable for 18 months from the date of the agreement. During the year ended December 31, 2007, the Company advanced US $1,500,000 ($1,482,150) as a down payment, which was applied to initial payment 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 share purchase warrants granted were calculated using the Black-Scholes option pricing model using the following assumptions. The Company also issued 150,000 shares at a fair value of $0.50 as a finder's fee for the acquisition.

Risk-free interest rate	2.97%
Expected dividend yield	0.00%
Expected stock price volatility	94.2%
Expected option 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 is allocated to the fair value of the underlying assets acquired and liabilities assumed based on their fair value at the date of acquisition. Total consideration of $6,035,199 is as follows:

Cash payments ($1,625,000 US)	$	1,592,175
Payable to Augusta Resources Ltd. (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 acquisition payments 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 extinguished and a new loan agreement was entered into resulting in $563,478 gain on extinguishment of loan being included in the statement of operations in 2009.

4. BUSINESS COMBINATION (continued)

As consideration for the extension, the Company issued 2,000,000 share purchase warrants to Augusta exercisable to purchase up to an aggregate of 2,000,000 common shares of the Company at the price of $0.25 for a period of 18 months expiring May 16, 2011. The fair value of the warrants were valued at $120,713 and has been included as a warrant expense in the statement of operations in 2009.

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

On June 22, 2010, and July 31, 2010 the Company negotiated two separate extensions of the June 1, 1010 payment for total consideration of US$40,000 (Paid - $41,060). The US$250,000 that was originally due on June 1, 1010 is due August 31, 2010.

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classified 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 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 June 30, 2010 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities	$ 23,988	$ 23,988	$ 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 major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	June 30 2010	December 31 2009
Bank accounts	$ 35,070	$ 243,050
GICs	-	-
Total	$ 35,070	$ 243,050

The credit risk is minimized substantially by ensuring that these financial assets are placed with major financial institutions with strong investment-grade ratings by a primary ratings agency.

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's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains cash and cash equivalents at June 30, 2010 in the amount of $35,070. At June 30, 2010, the Company had current liabilities of $988,248 and a working capital deficiency of $877,902. The Company requires additional financing to meet its commitments, and administrative overhead costs and continue exploration work on its mineral property interests into 2010.

(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

The Company's cash held in bank accounts earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of June 30, 2010. Future cash flows from interest income on cash will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(d) Market risk (Continued)

(ii) Foreign currency risk

The Company incurs expenditures in Canada and the US. 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.

The Company's expenditures on mineral property interests are incurred in US dollars; as at June 30, 2010, the Company has not hedged its exposure to currency fluctuations.

At June 30, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	June 30 2010	December 31 2009
Held-for-trading (1)	$ -	$ 13,875
Available-for-sale (2)	3,769	3,310
Other financial liabilities (3)	(3,008,391)	(2,880,298)
Total	$ (3,012,160)	$ (2,863,113)

(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 June 30, 2010, a 10% change in the Canadian/US exchange rate will impact the Company's earnings by approximately $325,479.

(iii) Other price risk

Other price risk is the risk that the fair 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.

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.

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. The Company believes that it has sufficient funds to meet its commitments and to fund its working capital for the coming year.

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

7. MARKETABLE SECURITIES

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

	June 30 2010		December 31 2009	
	Cost	Fair Value	Cost	Fair Value
Melco China Resorts Holding Ltd.				
100,000 common shares	$ 65,000	$ 20,000	$ 65,000	$ 9,000
Citigroup Inc.				
1,000 common shares	15,944	3,988	15,944	3,464
	$ 80,944	$ 23,988	$ 80,944	$ 12,464

8. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Non-cash transactions for the quarter ended June 30		
Fair value of warrants allocated to mineral property interests	$ 1,136,000	$ -
Expenditures on mineral property interest included in accounts payable and accrued liabilities	$ 31,568	$ 67,996

9. MINERAL PROPERTIES

	Mt. 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	1,251,720	-	26,500	-	1,278,220
Deferred exploration costs					
Claims	-	-	-	-	-
Camp and exploration support	17,901	-	-	-	17,901
Drilling	-	-	-	-	-
Geological	62,949	-	-	-	62,949
Travel	20,323	-	-	-	20,323
Total deferred exploration costs for the year	101,173	-	-	-	101,173
Balance, June 30, 2010	$ 9,338,648	$ 1,002,358	$ 85,227	$ 149,446	$ 10,575,679

9. 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

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% net smelter returns royalty ("NSR") is payable, subject to an increase whenever the price of gold is greater than $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 for $2,000,000 (the"First Royalty Reduction Option").

On November 16, 2009, the Company negotiated an extension of the time permitted to make the US $100,000 lease 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 has agreed 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 was included as part of mineral properties at December 31, 2009. 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 (CDN$115,720) 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 $1.5 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.

9. MINERAL INTERESTS (Continued)

(a) Mount Hamilton property, Nevada (continued)

The fair value of the NSR reduction warrants were valued at $1,136,000 and was included as part of mineral properties at June 30, 2010. The fair value of the extension warrants is estimated using the Black-Scholes option pricing model with the following assumptions:

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

(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 on the first anniversary (June 1, 2006) and increasing by US $20,000 per annum until production commences.

As at June 30, 2010, the Company has not made the 2010 payments relating to the Shell property.

(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 ($26,500 paid in 2010).

9. 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 advance minimum advance royalty payments as follows:

First Anniversary of the Agreement	US $ 70,000 ($78,540 paid)
Second Anniversary	US $100,000
Third Anniversary	US $150,000
Fourth Anniversary	US $150,000
Fifth Anniversary 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.

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. 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.

(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.

10. OTHER LIABILITIES

In consideration for the purchase of DHI, the Company will pay US $4,000,000 in instalments over the next six years, with no interest (note 4). At June 30, 2010, the fair value of the future instalments totalled $3,190,700.

Payable to Augusta Resources Ltd.	$	3,190,700
Less: current portion		795,450
Total other liabilities	$	2,395,250

11. SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares without nominal or par value

(b) Issued

(i) 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. There were no warrants issued and no finder's fees were paid in conjunction with the private placement.

(c) 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.

11. SHARE CAPITAL (continued)

(c) Stock options (continued)

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 June 30, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	**2010**	**2009**
August 30, 2010	$0.20	75,000	900,000
November 14, 2010	$0.50	-	200,000
May 3, 2011	$0.80	-	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	150,000	400,000
March 7, 2013	$0.50	-	150,000
March 26, 2011	$0.50	-	390,000
July 21, 2013	$0.40	-	200,000
June 3, 2014	$0.40	200,000	-
February 15, 2015	$0.50	600,000	-
June 3, 2015	$0.20	750,000	-
		1,905,000	2,670,000

Weighted-average remaining contracted life for the outstanding options at June 30, 2010 is 3.74 years.

11. SHARE CAPITAL (continued)

(c) Stock options (continued)

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

	June 30 2010		**June 30 2009**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,680,000	$ 0.41	2,670,000	$ 0.46
Granted	1,350,000	$ 0.33	400,000	$ 0.40
Exercised	(75,000)	$ 0.20		
Forfeited	(2,050,000)	$ 0.41	-	$ -
Outstanding, end of year	1,905,000	$ 0.36	3,070,000	$ 0.44

The fair value of stock options granted and modified to consultants and vested during the six months ending June 30, 2010 was $177,124 (2009 - $45,133).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	2.23%	- %
Expected dividend yield	0.00%	- %
Expected stock price volatility	152.00%	- %
Expected option life in years	5	-

The weighted average grant date fair value of stock options granted in 2010 was $0.28 per share (2009 - $nil).

(d) Warrants

As at June 30 31, 2010 and 2009, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	**2010**	**2009**
August 28, 2009	$0.50	-	3,000,000
May 16, 2011	$0.25	2,050,000	-
February 28, 2013	$0.32	4,000,000	-
		6,050,000	3,000,000

11. SHARE CAPITAL (continued)

(d) Warrants (continued)

Share purchase warrant transactions and the number of share purchase warrants outstanding at June 30, 2010 and 2009 are summarized as follows:

	2010		**2009**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,050,000	$ 0.25	3,000,000	$ 0.50
Granted	4,000,000	$ 0.32	-	$ -
Expired	-	$ -	-	$ -
Outstanding, end of year	6,050,000	$0.30	3,000,000	$0.50

The fair value of warrants issued in 2010 was $1,136,000 (2009 - $nil) and has been included in mineral properties (note9(a)).

(e) Shares reserved for issuance

Shares reserved for issuance as at June 30, 2010 and 2009 are as follows:

	2010	**2009**
Outstanding at June 30	41,244,912	39,169,912
Stock options (note 11(c))	1,905,000	3,070,000
Warrants (note 11(d))	6,050,000	3,000,000
Shares reserved for issuance, June 30	49,199,912	45,239,912

12. RELATED PARTY TRANSACTIONS

(a) During the six months ended June 30, 2010, the Company paid companies controlled by directors/officers of the Company $136,730 (2009 - $85,750) for consulting services, which has been recorded in the statements of operations.

(b) At June 30, 2010, $74,870 (2009 - $15,890) owing to companies controlled by directors or management 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.

13. INCOME TAXES

The Company has approximately US $854,000 in operating 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

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. 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 FMS for themselves and on behalf of FMS.

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

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

15. 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. Total assets and total capital assets (including mineral properties) identifiable with these geographic areas at June 30 are as follows:

	2010	2009
Assets		
Canada	$ 112,223	$ 1,403,656
United States	10,575,679	8,540,959
	10,687,902	9,944,615
Capital Assets (including mineral properties)		
Canada	1,877	2,589
United States	10,575,679	8,540,959
	$ 10,577,556	$ 8,543,548

16. SUBSEQUENT EVENTS

(a) On July 7, 2010 the Company issued 1,000,000 stock options with an exercise price of $0.15 exercisable to purchase one common share of the Company on or before July 7, 2015.

(b) On August 18, 2010, the Company closed the first tranche of the non-brokered private placement previously announced on July 7, 2010. The Company issued 2,018,000 units ("units") at a price of $0.15 per unit for aggregate gross proceeds of $302,000. Each unit is comprised of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one common share for a period of two years after closing at an exercise price of $0.25; provided that if at any time after four months after closing the Company's shares have a closing price equal to or higher than CDN$0.35 per Share for twenty (20) consecutive trading days, the Company may give notice to the holders of the Warrants by news release that the Warrants will expire at 4:30pm on that date which is 10 days after the date of such news release. As part of a finder's fee, the company paid $2,400 cash and issued 16,000 whole warrants with the same acceleration provisions as the share purchase warrants noted above.

(c) As reported in a news release dated August 26, 2010, the Company has entered into a Letter of Intent ("LOI") with Solitario Exploration & Royalty Corp. ("Solitario") to joint venture the Company's Mt. Hamilton gold project situated at the southern end of the prolific Battle Mountain gold trend in eastern Nevada. Under the LOI, Solitario may earn up to an 80% interest in the project by completing various staged commitments.

On signing the LOI, Solitario subscribed for a private placement of 3,333,333 units of Ely at a price of CDN$0.15 per Unit for an aggregate consideration of approximately CDN$500,000. Each unit consists of one common share and one-half share purchase warrant entitling the holder of a whole warrant to purchase an additional share of Ely for CDN$0.25, with such warrant expiring two years from the subscription date.

The private placement consists of two tranches: the first tranche of CDN$250,000 is to be funded on or before August 31, 2010, subject to TSX Venture Exchange acceptance; the second tranche will be funded upon Ely shareholder and exchange approval of the joint venture arrangement anticipated no later than late-October 2010.

Solitario will be conducting due diligence on the Mt. Hamilton project through the date of shareholder approval. Thereafter, Solitario will be committed to spend $1.0 million on exploration and feasibility work and to pay US$300,000 in an advanced royalty payment.

After completing these initial commitments, Solitario may elect to terminate its interest in the Mt. Hamilton project at any time and will have no further earn-in obligations on the project.

16. SUBSEQUENT EVENTS (continued)

To earn its full 80% interest in the project and fulfill other LOI commitments Solitario is further required to:

(i) Make cash payments to the subsidiary of Ely which will hold Ely's joint venture interest totaling US$2.75 million in cash, issue 300,000 shares of Solitario common stock, and subscribe to US$2.50 million worth of Ely common stock at market, all of which are scheduled from 2011 through mid-2015.

(ii) Make payments of US$300,000 per year in advanced royalty payments that are deductable against future production royalties to the underlying royalty owner, and prior to commercial production, pay $5.0 million to reduce the NSR royalty rate from 8% to 3%.

(iii) Complete a bankable feasibility study.

(iv) Upon request, arrange 100% project financing for development of the Mt. Hamilton project after completion of a bankable feasibility study. Construction and permitting costs incurred after feasibility will be shared pro-rata, however, Ely may elect to have Solitario fund all costs with such costs, plus interest, to be repaid by the joint venture to Solitario out of 80% of Ely's share of net proceeds from the joint venture.

The proposed Joint Venture remains subject to shareholder approval and final acceptance by the TSX Venture Exchange.