

# **ELY GOLD & MINERALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Suite 459 – 409 Granville St, Vancouver, BC V6C 1T2**

## 1.1 INTRODUCTION

Set out below is a review of the activities, financial performance and financial position of Ely Gold & Minerals Inc. (“Ely”, or the “Company”) and its subsidiaries for the years ended December 31, 2014 and 2013. The discussion below should be read in conjunction with the Company’s December 31, 2014 audited consolidated financial statements and related notes. All dollar figures included in the following Management Discussion and Analysis (“MD&A”) are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at April 23, 2015.

The Company is a reporting issuer in the provinces of British Columbia and Alberta in Canada and is listed on the TSX Venture Exchange (“Exchange”) under the symbol “ELY”.

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company’s website is at <http://www.elygoldandminerals.com/s/Home.asp>

## 1.2 FORWARD LOOKING STATEMENTS

This MD&A contains “forward-looking statements” within the meaning of applicable Canadian securities legislation, which include all statements, other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future. These include, without limitation:

- the Company’s anticipated results and developments in the Company’s operations in future periods;
- planned exploration and development of its mineral properties;
- planned expenditures and budgets;
- evaluation of the potential impact of future accounting changes;
- estimates concerning share-based payment and carrying value of properties; and
- other matters that may occur in the future.

These statements relate to analyses and other information that are based on expectations of future performance and planned work programs.

Statements concerning mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the related property is developed.

With respect to forward-looking statements and information contained herein, the Company has made a number of assumptions with respect to, including among other things, the price of gold and other metals, economic and political conditions, and continuity of operations. Although the Company believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that forward-looking statements or information contained or incorporated by reference herein will prove to be accurate.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- fluctuations in mineral prices;
- the Company's dependence on a limited number of mineral projects;
- the nature of mineral exploration and mining and the uncertain commercial viability of certain mineral deposits;
- the Company's lack of operating revenues;
- the Company's ability to obtain necessary financing to fund the development of its mineral properties or the completion of further exploration programs;
- jurisdiction operating risks which can over time include changes in political, economic, regulatory and taxation regimes;
- governmental regulations and specifically the ability to obtain necessary licenses and permits;
- risks related to the Company's mineral properties being subject to prior unregistered agreements, transfers, or claims and other defects in title;
- fluctuations in the currency markets;
- changes in environmental laws and regulations which may increase costs of doing business and restrict the Company's operations;
- risks related to the Company's dependence on key personnel; and
- estimates used in the Company's consolidated financial statements proving to be incorrect.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company's forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

### **1.3 DESCRIPTION OF BUSINESS**

The Company's registered office is Suite 459 – 409 Granville St, Vancouver, British Columbia, Canada, V6C 1T2.

The Company's operations are conducted through Ely and its wholly-owned subsidiaries, DHI Minerals Ltd. ("DHI") and its subsidiary DHI Minerals (US) Ltd. ("DHI US").

The Company is an exploration stage natural resource company engaged in the evaluation, acquisition, exploration and development of natural resource projects. The Company is currently focused on gold projects in North America.

The recoverability of costs capitalized to mineral properties and the Company's future financial success is dependent upon the extent to which economic gold mineralized bodies can develop to producing entities. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors for advancing the Company's projects to production are dependent on outside factors; such as, obtaining the necessary rights and permitting which need to be granted from certain local and governmental agencies located in the jurisdictions that the Company operates in. Additional risk factors that may affect the financial success of the Company and its consolidated financial statements and the risk factors related to mineral exploration and development are set out under the heading "Risks and Uncertainties" listed below.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. The Company is not aware of any seasonality in the business that may have a material effect upon its financial condition, other than those normally

encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

## 1.4 HIGHLIGHTS

- On January 28, 2014, the Company granted incentive stock options to certain directors and officers of the Company entitling them to purchase 900,000 common shares at a price of \$0.12 per share for a period of 10 years.
- On February 20, 2014, the Company received US\$250,000 cash and 50,000 shares from Solitario Exploration & Royalty Corp. (“Solitario”).
- On November 27, 2014, the Company granted incentive stock options to certain directors and officers of the Company entitling them to purchase 900,000 common shares at a price of \$0.06 per share for a period of 10 years.
- During the year ended December 31, 2014, the Company disposed of 400,777 common shares of Solitario for gross proceeds of \$438,708, realizing a gain of \$61,928.
- As of December 31, 2014, the Company had cash of \$578,198 and consolidated working capital of \$743,366 including marketable securities.

## 1.5 PROJECT UPDATES AND ACQUISITION

### i. Acquisition of DHI Minerals Ltd. (“DHI”)

On February 28, 2008, as amended on November 16, 2009, the Company acquired 100% of the issued and outstanding common shares of DHI, which owns 100% of the shares of DHI US, pursuant to an agreement with Augusta. As consideration for the acquisition, the Company agreed to pay US\$6,625,000 (the “Acquisition Payment”) and issued 3,000,000 share purchase warrants with an exercise price of \$0.50 per share, exercisable for 18 months from the date of the agreement at a fair value of \$2,828,661.

The amended agreement on November 16, 2009 extended the Acquisition Payment for which the Company issued an additional 2,000,000 share purchase warrants to Augusta to purchase 2,000,000 common shares of the Company at \$0.25 per share for a period of 18 months, expiring May 16, 2011. These warrants were exercised during the year ended December 31, 2011.

Upon signing	US\$1,625,000 (paid - C\$1,592,175)
February 28, 2009	US \$1,000,000 (paid -C\$1,247,520)
June 1, 2010	US \$250,000 (paid - C\$266,353)
June 1, 2011	US \$500,000 (paid – C\$488,043)
June 1, 2012	US \$750,000 (paid – C\$757,380)
June 1, 2013	US\$750,000 (paid - C\$774,975)
November 30, 2013	US \$1,500,000(paid-C\$1,377,090)
	<u>US \$6,375,000</u>

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.

On November 16, 2009, the Company negotiated an extension of the time permitted to make the US\$100,000 advanced royalty payment otherwise required to be made by November 19, 2009. As consideration for the extension, the Company agreed to increase the amount of the payment from US\$100,000 to US\$110,000 and to issue to the lessor warrants exercisable to purchase up to an

aggregate of 50,000 common shares of the Company at the price of \$0.25 each until May 16, 2011. The extension warrants were exercised during the year ended December 31, 2011.

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 February 22, 2010 and April 28, 2010, the Company further negotiated amendments to the Mount Hamilton lease to reduce the NSR under the original agreement. If the Company exercises the First Royalty Reduction Option (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. On January 23, 2013, the warrants were extended from February 28, 2013 to February 28, 2015 and expired unexercised on February 28, 2015.

## ii. Collaboration with Solitario

On December 22, 2010 and as subsequently amended on June 28, 2012 and August 10, 2012, the Company, through its wholly owned subsidiary, DHI Minerals (US) Ltd ("DHI US") and Solitario incorporated MH-LLC pursuant to a Letter of Intent ("LOI") and an Operating Agreement to advance the Company's Mount Hamilton project located near Ely, Nevada, through to a Bankable Feasibility Study ("BFS"). The following summarizes the terms of the LOI and Operating Agreement:

- (a) Solitario to subscribe for \$500,000 in units comprising one common shares of Ely Gold (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 (paid);
- (c) DHI US 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 (contributed);
- (d) Solitario to subscribe for three additional tranches of common shares of Ely:
  - (i) US\$750,000 of common shares on or before May 1, 2013; (received US\$500,000 on April 23, 2013);
  - (ii) US\$750,000 of common shares on or before May 1, 2014 (settled on November 22, 2013); and
  - (iii) US\$1,000,000 of common shares on or before May 1, 2015 (settled on November 22, 2013).

The price per common share for each tranche will be equal to the greater of (a) the 20 day weighted moving average price of the Company's shares on the Exchange over the 20 days

immediately preceding the subscription date; and (b) the Discounted Market Price (as that term is defined in the Policies of the Exchange) of the Company's shares on the last trading day immediately preceding the date of the subscription agreement.

The Company shall utilize the proceeds of each tranche only to make the required payments to Augusta, which are currently due on June 1, 2013, June 1, 2014 and June 1, 2015 and will make such payments within three business days after the day in which the proceeds from the respective tranche has been received.

The Company has the right, but not the obligation, to reduce the aggregate subscription amount for any given tranche, provided that the Company has provided written notice to Solitario stating its election to reduce the aggregate subscription amount of the respective tranche and that the Company has sufficient funds to make the required payments to Augusta by the respective due dates.

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

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

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

- (e) Phase I. To earn an additional 41% interest in MH-LLC, for a total of 51%, Solitario is required to:
  - (i) incur a minimum of US\$1,000,000 in exploration expenditures by August 23, 2011 (incurred);
  - (ii) invest US\$300,000 into MH-LLC for an advance royalty payment to the Underlying Royalty Holder (paid); and
  - (iii) make payments totaling US\$1,750,000 to DHI US (paid) and issue 100,000 Solitario common shares to DHI US by August 23, 2012 (issued).
  
- (f) Phase II. To earn an additional 19% interest in MH-LLC, for a total of 70%, Solitario is required to:
  - (i) invest US\$300,000 into MH-LLC for an advance royalty payment to the Underlying Royalty Holder; and
  - (ii) make payments totaling US\$500,000 to DHI US and issue 100,000 Solitario common shares to DHI US by August 23, 2013. (received US\$500,000 and 100,000 Solitario common shares in 2013).
  
- (g) Phase III. To earn an additional 10% interest in MH-LLC, for a total of 80%, Solitario is required to:
  - (i) invest US\$600,000 into MH-LLC for an advance royalty payment to the underlying royalty holder;

- (ii) make payments totaling US\$500,000 to DHI US and issue 100,000 Solitario common shares to DHI US by August 23, 2014;
- (iii) buy-down the existing 8% net smelter return royalty (“NSR”) to a 3% NSR by paying the Underlying Royalty Holder US\$5,000,000 upon commencement of commercial production; and
- (iv) Fund all bonding requirements to achieve commercial production as described in the BFS.

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

As of February 22, 2012, Solitario earned an 80% interest in MH-LLC by completion of a BFS and is committed and obligated to make the following payments and share issuances (collectively referred to as the “Continuing Payment Obligations”).

- (i) make unpaid payments of cash and common shares to DHI US totaling US\$1,000,000 (paid and 200,000 common shares of Solitario (paid);
- (ii) make Advance Royalty Payments to the Underlying Royalty Holder of US\$900,000 (paid);
- (iii) subscribe to the uncompleted additional subscriptions due to Ely Gold by the due dates described above (fully subscribed);
- (iv) buy-down the existing 8% net smelter return royalty (“NSR”) to a 3% NSR by paying the Underlying Royalty Holder US\$5,000,000 upon commencement of commercial production; and provide funding for all bonding requirements to achieve commercial production

Should Solitario default on any of the Continuing Payment Obligations, DHI US’ equity interest in MH-LLC will revert to 51% and Solitario’s interest will be reduced to 49%.

All other costs incurred by MH-LLC will be shared by Solitario and DHI US pro-rata based on equity interest owned (80%:20%). Under the Operating Agreement, DHI US has the option to contribute its share of expenditures in cash or require Solitario to fund its share. In the event DHI US’s share of expenditures are funded by Solitario, the contribution will be considered a loan provided at a commercially competitive rate of interest. All loans made and accrued interest will be repaid exclusively from 80% of DHI US’s share of distributions from MH-LLC. Thus, the Company’s interest in MH-LLC is considered a “Carried Interest”.

### **iii. MH-LLC Management**

Under the Operating Agreement, Solitario manages the day to day operation of MH-LLC, However, the Management Committee has the exclusive power and authority to approve all “Major Decisions”. Solitario and DHI US appoint two representatives each to the Management Committee. The representatives of each company vote as a group. In the event that the two groups don’t agree, the groups vote based on their ownership interest.

Major Decisions are defined as:

- (i) Approval of all programs and budgets;
- (ii) Dissolution of the Company;
- (iii) Decisions to undertake production or to cease production;
- (iv) Acquisition or dissolution of mineral rights, claims or real property;
- (v) All financing activities & distributions;
- (vi) The redemption or issuance of any portion of an interest in MH-LLC;
- (vii) Bankruptcy filings; and

- (viii) Any contract by any Member which requires the other Member to relinquish any of its rights under the Operating Agreement.

Since its inception, MH-LLC has held Management Meetings on a quarterly basis and the DHI US representatives have had input in all Major Decisions as well as many day to day management decisions and project development. These include press releases, reviewing all technical reports, reviewing MH-LLC financials and several site visits.

On May 27, 2011, MH-LLC entered into an agreement to buy-down the NSR on the Mount Hamilton project ("Purchase Agreement"). Pursuant to the Purchase Agreement, the 3% NSR base rate has been reduced to 1% and the maximum NSR has been reduced from 8% to 6%; the percentages and costs of the three royalty reduction options noted above remain unchanged. MH-LLC purchased the royalty buy-down for US\$2.52 million, (\$2.56 million).

Solitario contributed the entire purchase price of the royalty buy-down and loaned DHI US its 20%, US\$504,000, proportionate share. The loan payable by DHI US to Solitario will bear interest at 6% per annum and will be repaid from DHI US's future production proceeds. The entire purchase price of the royalty buy-down has been included in mineral properties as acquisition costs.

On June 11, 2012, MH-LLC entered into an agreement with Sandstorm Gold Ltd. ("Sandstorm") whereby Sandstorm has purchased a 2.4% NSR on the Mount Hamilton gold project for US\$10 million. US\$6 million was paid upon signing and the remaining US\$4 million was paid to MH-LLC on January 15, 2013. As part of the agreement, MH-LLC will have the option, for a period of 30 months, to repurchase up to 100% of the NSR for US\$12 million, provided that Solitario enters into a gold stream agreement with Sandstorm that has an upfront deposit of no less than US\$30 million. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mount Hamilton project.

On June 28, 2012, the Management Committee of MH-LLC agreed that MH-LLC would distribute \$2,500,000 to its members. DHI US' 20% portion of the distribution (\$500,000) was paid directly to Solitario for repayment of the loan from the May 27, 2011 royalty buy down. Solitario agreed to forgive (a) the entire amount of the accrued interest on the Loan Amount through June 30, 2012 and (b) all interest on DHI US' share of post Bankable Feasibility Study expenditures between February 22, 2012 and June 30, 2012. The interest forgiveness was treated on Ely's financial statements as an expense recovery.

On August 10, 2012 Solitario entered into a Facility Agreement with RMB Resources whereby Solitario was permitted to borrow up to US\$5,000,000 (the "RMB Loan"). The RMB Loan is secured by Solitario's 80% interest in MH-LLC and therefore required the approval of DHI US under the Operating Agreement. DHI US approved the loan subject to certain conditions including (a) a right to cure a default of the RMB Loan and (b) DHI US maintaining its first security position regarding Solitario's Continuing Payment Obligations.

Subsequent to the June 28, 2012 distribution, all of MH-LLC's expenses have been paid from the balance of the proceeds from the Sandstorm NSR and as of December 31, 2014, DHI US had no loans outstanding to Solitario or other obligations to MH-LLC.

#### **iv. Mineral properties**

##### Mount Hamilton Property

The Mount Hamilton property is a 5,455 acre property located at the southern end of the Battle Mountain Gold Trend, 65 kilometers west of the town of Ely, Nevada. The property contains both precious and base metal mineralization that occurs within a gently folded sequence of Cambrian aged sedimentary rocks. Early exploration was done by Phillips Petroleum Co. who were targeting skarn hosted molybdenum-tungsten-copper-gold-silver mineralization. The precious metal mineralization was concentrated in two near-surface, contiguous deposits, Seligman and Centennial; this mineralization was



further developed by Rea Gold, a Vancouver based company that mined the Seligman gold-silver deposit from 1995-1997. Production was halted prematurely in June of 1997 due to operational problems and low metal prices.

The current focus on the Mt. Hamilton property by Ely and Solitario has been gold-silver mineralization at Centennial along with the remaining mineralization at Seligman. The pre-existing Mt. Hamilton database consists of 531 drill holes. This data has been verified/validated by SRK Consulting (U.S.) Inc. ("SRK") in compliance with NI-43-101 requirements. Ely began work on the property in 2008 by drilling 5 holes at Centennial to verify historical data for an updated resource calculation by SRK.

Solitario drilled a total of 60 holes in 2011-2012 at both Centennial and Seligman. This drilling totaled 25,138 feet, including 7 metallurgical and 8 exploration/resource confirmation holes at Centennial and 45 resource confirmation, geotechnical, and metallurgical holes at Seligman.

The gold-silver mineralization at Centennial and Seligman have been the subject of recent reserve/resource calculations carried out by SRK for MH-LLC in NI 43-101 Technical Reports dated February 22, 2012 and October 16, 2014. The most recent results are tabulated below.

Gold-silver mineralization at Centennial and Seligman have been the subject of recent reserve/resource calculations carried out by SRK for MH-LLC. On February 22, 2012 Solitario announced positive Feasibility Study results based solely on reserves from the Centennial Deposit. With the completion of this Feasibility Study, Solitario earned an 80% interest in Mt. Hamilton LLC, subject to certain ongoing funding commitments.

On October 20, 2014, Solitario announced results of an updated Feasibility Study prepared by SRK. This Technical Report supersedes the 2012 Technical Report and represents a fully remodeled combination of both the Centennial Deposit reserves reported in 2012 and an upgraded reserve for the adjacent Seligman Deposit. SRK's statements for Resources and Reserves are presented in the following tables:

**Mineral Resource Statement at \$1.300/oz Au and 0.006 Au cut-off grade, Mt. Hamilton Gold-Silver Deposit, March 25, 2014**

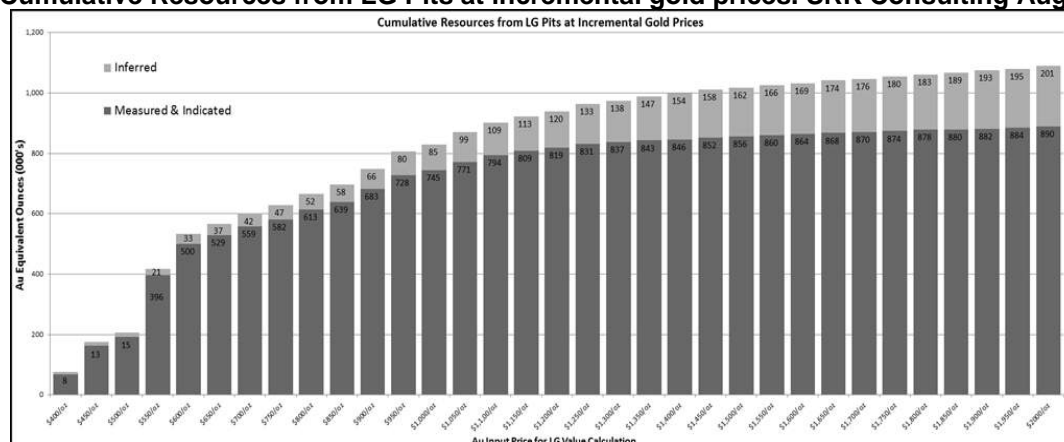
Resource Category	Tons	Au Grade	Ag Grade	Au Eq Grade		Contained Ounces (thousands of ounces)		
	(000's)	oz/t	oz/t	oz/t	g/tonne	Au	Ag	AuEq
Measured	1,427	0.03	0.209	0.033	1.125	42	299	47
Indicated	32,283	0.021	0.194	0.024	0.83	685	6,271	782
<b>Measured and Indicated</b>	<b>33,710</b>	<b>0.022</b>	<b>0.195</b>	<b>0.025</b>	<b>0.843</b>	<b>727</b>	<b>6,569</b>	<b>828</b>
Inferred	6,721	0.018	0.171	0.02	0.696	119	1,153	136

**Mineral Reserve Statement, SRK Consulting (U.S.), Inc. Ultimate Designed Pit Reserves at \$1,300/oz Au and 0.006 Au cut-off grade, Mt. Hamilton Gold-Silver Deposit, August 14, 2014**

Reserve Category	Tons	Au Grade	Ag Grade	Au Eq Grade		Contained Ounces (thousands of ounces)	
	(000's)	oz/t	oz/t	oz/t	g/tonne	Au	Ag
Proven	1,240	0.029	0.198	0.031	1.06	36.6	245.8
Probable	21,260	0.024	0.198	0.025	0.87	508.8	4,213.80
Proven and Probable	22,500	0.024	0.198	0.026	0.88	545.4	4,459.60
Total Waste	63,319						

Mineral Reserves were conservatively estimated from a pit design based on \$840/oz gold and \$13/oz silver prices. Reserves were capped at 22.5 million tons, as that is the maximum tonnage capacity of the currently permitted heap leach site situated on the project's private land holdings. Approximately 182,000 ounces of Indicated and 119,000 Inferred gold ounces in the \$1,300 resource pit are not included in the current reserves. Additional drilling and the permitting of an expanded heap leach facility would provide an opportunity to upgrade a portion of these gold ounces from Measured, Indicated and Inferred Resources to Proven and Probable Reserves, improving the project economics and extending cash flow over a longer mine life. The 2014 Feasibility Study included the following sensitivity analysis of the Resource Statement. The results of this sensitivity indicate the majority of the potential measured and indicated ounces are captured by the US\$1,250/oz Au sales price pit and that there is a significant amount of inferred material that, if upgraded could have a positive impact on economics for pits designed above US\$1,000/oz Au.

**Cumulative Resources from LG Pits at incremental gold prices. SRK Consulting August 2014**



Indicative economic results of the 2014 Feasibility Study by SRK, Base Case: \$1,300 Gold and \$20.00 Silver, are as follows:

- Production Rate/Mine Life: 10,000 tons ore per day (350 days/year) / 7 years
- Average Gold Recovery: 76.2% (70% of recoverable gold in first 30 days of processing)
- Average Silver Recovery: 39%
- Life of mine stripping ratio: 2.47:1.0 (waste:ore (includes stockpiled ore))
- Initial Capital Cost: \$91.7 M (includes \$9.0 M contingency)
- Sustaining Capital: \$29.8 M (includes \$2.4 M contingency and \$10.1 M end-of-mine closure costs)

- Working Capital: \$8.4 M
- Underlying NSR-Royalty: 3.4%
- Cash Costs per Gold-Equivalent ("AuEq") Ounce\* Recovered: \$558
- Avg. Annual AuEq Production: 73,000 oz (during 6.1 year active mining period)
- Avg. Annual Gold Production: 68,600 ounces
- Avg. Annual Silver Production: 279,400 oz.
  - o \*Gold equivalent (AuEq) was based on recovered payable metal with an effective ratio of 65:1Ag:Au.
- After tax Internal Rate of Return (IRR): 26%
- After tax payback period: 2.9 years.

In addition, the 2014 Feasibility Study included the following sensitivity analysis to the after-tax returns for the Mt. Hamilton project.

<b>Mt. Hamilton Project Economics</b>				
<b>Item</b>	<b>After-Tax</b>			
Gold US\$/oz	\$1,200	\$1,300	\$1,400	\$1,500
Silver US\$/oz	\$18.50	\$20.00	\$21.50	\$23.10
Cash Flow (US\$ M)	\$89,425	\$115,882	\$142,339	\$168,255
NPV @ 8% (US\$ M)	\$41,762	\$60,817	\$79,872	\$98,534
IRR	20.6%	26.0%	31.1%	36.0%
Payback (Years)	3.1	2.9	2.7	2.5

#### Permitting Status

The US Forest Service approved the Environmental Assessment and the Plan of Operations for mining operations at Mt. Hamilton in Q4 2014. The Bureau of Land Management has granted a Right of Way for access to the private properties where offices, maintenance facilities, process plant and leach pads will be located. Three major state permits have been issued by the Nevada Department of Environmental Protection (NDEP) issued the Water Pollution Control Permit in July 2014 and two Reclamation Permits in January 2015. The only remaining key permit is the Air Quality Permit which has been submitted to NDEP and approval is expected in early 2015. Local building permits for offices and maintenance facilities will be submitted when the plans are finalized.

#### Shell Properties

The Shell and Monte Cristo properties are located southwest of the Mount Hamilton project, on claims that are contiguous with the Mount Hamilton property. The Shell property was originally explored by Union Carbide Corporation from 1968-1982 for its gold, molybdenum, and tungsten potential. Mineralization was intersected at depths ranging from 800 - 1,400 feet and is localized in a brecciated fault contact between shaley limestones above, and underlying calcareous shales of Cambrian age, near the intrusive Monte Cristo stock.

Drilling by Union Carbide identified mineralization from two separate zones that are separated by between 20 to 40 feet and remain open in all directions. A molybdenum rich zone lies above a gold rich zone.

Due to certain contractual obligations including a right of first refusal on the Monte Cristo property, the Shell property was transferred to MH-LLC during the year ended December 31, 2011 and MH-LLC has assumed all liabilities related to the Shell property. The Monte Cristo property was included as part of the Company's initial contribution into MH-LLC.

The Shell deposit is located near the Mount Hamilton property and 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.

On May 23, 2013, MH-LLC amended the Shell property lease to reduce advance royalty payments, eliminate current work commitments and eliminate the right of first refusal on the Monte Cristo property. Advance royalty payments were reduced to \$50,000 in 2014 and \$95,000 for 2015. There are no work commitments in 2014 or 2015.

### **Great American, Nevada**

During the year ended December 31, 2011, the Management Committee of MH-LLC agreed to enter into an option agreement with Great American Minerals, Inc. to acquire 100% of the Great American claims for a total payment of US\$525,000, payable as follows:

- On signing the agreement - US\$50,000 (paid)
- On or before September 8, 2012 – US\$50,000 (paid)
- On or before September 8, 2013 – US\$75,000 (paid)
- On or before September 8, 2014 – US\$150,000 (paid)
- On or before September 8, 2015 – US\$200,000

The Great American property is subject to:

- an annual advanced minimum royalty payment, of the greater of US\$30,000 or the cash value of 33 ounces of gold, commencing on September 8, 2016 and ending when production commences; and
- a 3% NSR from all gold or silver productions and 2% NSR from all other products produced or sold.

### **Green Springs, Nevada**

On February 4, 2013, the DHI US acquired the Green Springs property in White Pine County, Nevada for US\$300,000 (paid) and \$50,000 (paid) cash. The Green Springs property is subject to a 2% NSR. Green Springs is 100% owned by DHI US and is not a part of MH-LLC.

Green Springs covers an area of 1498 acres and lies approximately 5 miles south of the Mt Hamilton project. The Green Springs property is located 14 miles southeast of Midway Gold's ("Midway") Pan Deposit which is in the permitting process for mine development and 7 miles southeast of Midway's Goldrock project and 10 miles northwest of Pilot Gold's Griffon project.

Previous work on the Green Springs property was conducted by U.S. Minerals Exploration Company ("USMX") during the 1980's. The work outlined six zones of gold mineralization from approximately 650 reverse circulation drill holes. Using a cut-off grade of 0.7g/t gold, USMX developed and produced from three of these mineralized zones. Historic production records, from 1988-1990, indicate that 1.1 million metric tons of ore averaging 2.1 g/t gold were mined by open pit mining and heap leaching, and gold recoveries of approximately 80% were obtained from a relatively coarse crush. Very little exploration work was done on peripheral targets after the initial discoveries by USMX. However in 2004-2008, previous owners conducted extensive ground sampling, mapping and a CSMAT geophysical survey. The USMX figures are historical figures obtained from a 1991 report by the Geological Society of Nevada. However, a qualified person has not done sufficient work to classify the historical estimate as current

mineral resources or mineral reserves and the issuer is not treating the historical estimate as current mineral resources or mineral reserves. Therefore, the USMX figures should not be relied upon by investors.

At the Green Springs project the Company owns 76 unpatented lode mining claims and has an option to acquire a 100% interest in a further 2 unpatented lode mining claims that altogether cover an area of 1,498 acres. The property hosts Carlin style, epithermal, disseminated, sediment hosted gold-silver mineralization. The principal target horizon at Green Springs in the 1980's was the Lower Chainman Shale and Upper Joana Limestone similar to Midway's Goldrock project. These units lie stratigraphically above the Pilot Shale, a primary host to Carlin style gold mineralization elsewhere in the region, including Midway's Pan deposit.

The Company will initially focus on compilation of historical data to provide direction to define targets proximal to the historic pits as well as new exploration targeting the Pilot Shale. To that end, SRK Consulting (U.S.) Inc. has compiled and digitized historic data, and has created a modern geologic and mineralization model for the Property, to ultimately produce a National Instrument 43-101 Geological Report with recommendations for future exploration and development. In addition, Enviroscientists, Inc. was retained by the Company in 2013 to coordinate the permitting and environmental requirements for exploration and development on the property.

An exploration Plan of Operations (POO) was submitted to the U.S. Forest Service in October 2013. An Environmental Assessment (EA) is also in progress for this POO. The EA process undertaken by the U.S. Department of Agriculture--Forest Service ("USFS") was completed on September 2, 2014. The Company posted the initial bond for the project and the USFS granted final approval to the Plan of Operations filed on November 22, 2014. The EA and Plan of Operations cover over 75 acres, providing an opportunity to confirm historic resources and test other formations which host gold mineralization in the District. The Company also received final approval of its Nevada Reclamation Permit from the Nevada Department of Environmental Protection.

### **Cox Claims, Nevada**

On January 16, 2013, the Company acquired a mining lease and a 100% purchase option on two mining claims contiguous to the Green Springs property, known as the Cox Claims. The lease on the Cox claims has a term of 10 years with escalating advance royalty payments and a 100% purchase option. The minimum advance royalty payments total US\$222,500. The purchase option for the Cox claims 100% owned by DHI US and is not part of MH-LLC

The Company has the option to purchase the claims for an amount equal to US\$200,000 less the aggregate of the annual advance royalty payments made prior to the date of exercising the purchase option. Upon exercise of the purchase option, title to the Cox Claims will be taken subject to annual advance royalty payments of US\$25,000 until commencement of commercial production, after which a 2% NSR will be payable, after recovery of the aggregate advance royalties. The Company has the option to buy-down 1% of the NSR for US\$500,000.

In connection with the acquisition of the Cox Claims, the Company entered into an Agency Agreement with Urawest Energy LLC ("Urawest") to compensate Urawest for its involvement in the acquisition of the Cox Claims. Under the terms of the Agency Agreement, the Company will make total aggregate payments of US\$47,500 to Urawest, payable in annual installments over the 10 year term of the Cox Claims lease. In the event the Company exercises the purchase option to acquire 100% of the Cox Claims, any unpaid fees to Urawest as at the date of exercise shall be paid in full. Upon commencement of commercial production from the Cox Claims, the Company shall pay Urawest a 0.25% NSR.

## Cathedral Well, Nevada

In July 2014 Ely Gold signed an Exploration and Option Agreement with Eurasian Minerals through its wholly-owned subsidiary Bronco Creek Exploration, Inc., for EMX's Cathedral Well gold project. The Cathedral Well property bounds Ely Gold's Green Springs project area to the east and the west. The Cathedral Well option is 100% owned by DHI US and is not part of MH-LLC

Pursuant to the Agreement, Ely Gold can earn a 100% interest in the Project by paying EMX a total of US\$100,000 as follows: US\$25,000 upon execution of the Agreement and US\$75,000 over the next three years, after which EMX will retain a 2.5% net smelter return (NSR) royalty, inclusive of an underlying 0.5% NSR royalty. In addition, after earning the 100% interest in the Project, Ely Gold will pay EMX annual advance royalties equal to a) 20 ounces of gold each year until completion of a feasibility study, prepared in accordance with the requirements of NI 43-101 and CIM definitions and guidelines, covering either, or both, of the Project and the adjacent Ely Gold properties, and b) 35 ounces of gold each year thereafter until commencement of commercial production from either, or both, of the Project and the adjacent Ely Gold properties. Ely Gold may purchase 0.5% of the EMX NSR royalty by paying Eurasian 500 ounces of gold within 60 days after commencement of commercial production from either, or both, of the Project and the adjacent Ely Gold properties.

The EMX property contains numerous outcropping jasperoids and de-calcified zones developed along the Joanna-Chainman sedimentary rock contact, as well as widespread alteration in sedimentary units above and below the Chainman Formation.

EMX acquired Cathedral Well through staking in 2008, and immediately optioned the property to a wholly-owned subsidiary of Eldorado Gold Corp. ("Eldorado"). EMX and Eldorado completed 30.5 line kilometers of NSAMT and CSAMT geophysical surveys, soil and stream sediment surveys totaling 1,597 samples, and identified seven targets that were permitted for drill testing. Six reverse circulation drill holes totaling 1,426 meters were completed over the western target area. Eldorado relinquished their property interest in 2011, leaving the prospective outcrops and targets on the eastern portion of the property untested. Ely Gold will be the operator of the program, with technical assistance from EMX through a defined Management Committee arrangement during the option period.

## 1.6 RESULTS OF OPERATIONS

### Selected annual information

Year ended	Revenue \$	Net income (loss) \$	Earnings (loss) per share \$	Total assets \$	Non-current liabilities \$
December 31, 2014	-	(1,298,451)	(0.02)	1,465,649	1,631,016
December 31, 2013	-	(1,291,467)	(0.02)	1,968,851	903,793
December 31, 2012	-	(1,371,836)	(0.02)	3,072,290	2,068,742

### Twelve months ended December 31, 2014, compared to the twelve months ended December 31, 2013.

The Company recorded a net loss of \$1,298,451 (\$0.02 loss per common share) for the twelve months ended December 31, 2014 (the "current year") compared to a net loss of \$1,291,467 (\$0.02 loss per common share) during the twelve months ended December 31, 2013 (the "prior year"), an increase of \$6,984, as explained in the following paragraphs.

- Consulting fees were \$76,934 lower in the current year (\$816,360) when compared to the comparative year (\$893,294). The Company decreased the numbers of consultants engaged in the business in the current year and the prior year included a management bonus; there was no management bonus granted in the current year.

- Share-based payments were \$116,223 lower in the current year (\$123,944) when compared to the comparative year (\$240,167). There were more options that were granted and that vested during the current year; however, the prior year included an additional expense of \$142,228 relating to the extension of warrants and \$32,108 relating to the re-pricing of existing options.
- 
- Professional fees were \$37,448 lower in the current year (\$71,099) when compared to the comparative year (\$108,547). The comparative year included additional legal fees relating to the acquisition of the Green Springs project.
- Interest expense was \$105,215 lower in the current year (\$62,275) when compared to the comparative year (\$167,490). Interest expense in current year relates to the interest on the deferred compensation. The comparative year also included interest expense relating to the accretion of the Augusta loan payable.
- Interest income was \$47,022 lower in the current year (\$2,697) when compared to the comparative year (\$49,719). Interest income includes interest earned on cash held in major Canadian banks and the interest accretion on the consideration receivable from Solitario. The consideration receivable from Solitario was settled in the first quarter of the current year where as the comparative year included 12 months of interest accretion.
- Gain on early settlement of Augusta loan was \$288,830 lower in the current year (\$nil) when compared to the comparative year (\$288,830). During the comparative year the Company settled the balance of the loan payable to Augusta and received a discount for settling early, which resulted in the Company recognizing a gain.
- Gain (loss) on fair value of receivables was \$128,170 higher in the current year (gain - \$40,515) when compared to the comparative year (loss - \$87,655). The Company recognizes the change in fair value of the Solitario common shares component of the consideration receivable from Solitario in income. The gain in the current period is due to an increase in the market value of the Solitario shares that were received during the first quarter of the current year.
- Loss relating to the change in value of deferred compensation was \$362,631 higher in the current year (loss - \$261,100) when compared to the comparative year (gain - \$101,531). In the comparative year, the Company's estimate of the fair value of the deferred compensation was to index deferred consulting fees against the Dow Jones Industrial Average and to estimate a discount on the liability. During the current period, the Company amended the terms of the deferred compensation plan which resulted in the extinguishment of the original liability and the recognition of a new liability in accordance with IAS 39. As a result, the Company recorded an increase in the value of the deferred compensation liability of \$261,100, which corresponds with the loss on the statement of operations and comprehensive loss (comparative year – decline in value of \$101,531).
- Excess on distribution from equity investment was \$49,050 lower in the current year (\$nil) when compared to the comparative year (\$49,050). During the comparative year, \$49,050 was received as a distribution from MH-LLC; no distribution was received during the current year.
- Impairment of marketable securities was \$100,111 lower in the current year (\$nil) when compared to the comparative year (\$100,111). The impairment in marketable securities in the comparative year was a result of management's assessment that its marketable securities had experienced a prolonged decline in fair value; as a result, the impairment of \$100,111 was transferred from accumulated other comprehensive loss and recognized in

net loss in the comparative year. There has been no impairment during the current year, fair value changes for the current year have been included in change in fair value of marketable securities.

- Net gain on disposal of marketable securities was \$60,393 higher in the current year (\$60,393) when compared to the comparative year (\$nil). During the current year, the Company disposed of marketable securities and realized a net gain; no marketable securities were disposed of during the comparative year.
- Gain (loss) arising from foreign exchange was \$81,314 higher in the current year (gain - \$18,132) when compared to the comparative year (loss - \$63,182). Gains (losses) from foreign currency will fluctuate from year to year based on changes in the CAD/USD exchange rate as the Company has accounts payable denominated in US dollars, which get revalued at the exchange rate prevailing on the consolidated financial statement reporting date. In addition, during the comparative year the Company settled the outstanding loan payable to Augusta (US\$2,050,000), which also had an impact on the gain (loss) on foreign exchange during the comparative year.

**Three months ended December 31, 2014 (“current period”), compared to the three months ended December 31, 2013 (“comparative period”).**

- Consulting fees were \$16,056 lower in the current period (\$193,727) when compared to the comparative period (\$209,783). The Company decreased the numbers of consultants engaged in the business in the current period.
- Transfer agent and filing fees were \$8,305 lower in the current period (\$3,281) when compared to the comparative period (\$11,586). The comparative period included additional filing fees relating to the private placement that was closed in the fourth quarter 2013.
- Share-based payments were \$8,624 lower in the current period (\$32,023) when compared to the comparative period (\$40,647). The decrease is due to the prior period having additional vested options.

**1.7 ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The material component of exploration and evaluation costs are:

	<u>2014</u>	<u>2013</u>
Exploration and evaluation costs		
Geological consulting	\$ 123,009	\$ 789
Claim maintenance	36,590	4,460
	<u>\$ 159,599</u>	<u>\$ 92,176</u>



## 1.8 SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table summarizes selected information from the Company's unaudited consolidated financial statements, prepared in accordance with IFRS, for the last eight quarters.

### For the quarters ended

	Dec 31 2014	Sept 30 2014	Jun 30 2014	Mar 31 2014
Total revenues (Interest & other income)	\$47	\$109	\$ -	\$2,541
Loss for the quarter	(\$612,704)	(\$392,411)	(\$211,556)	(\$81,780)
Loss per share	(\$0.02)	(\$0.00)	(\$0.00)	(\$0.00)

### For the quarters ended

	Dec 31 2013	Sept 30 2013	Jun 30 2013	Mar 31 2013
Total revenues (Interest & other income)	\$7,975	\$12,152	\$12,616	\$16,976
Gain (loss) for the quarter	\$123,007	(\$216,892)	(\$630,579)	(\$567,003)
Gain (loss) per share	\$0.00	(\$0.00)	(\$0.01)	(\$0.01)

The Company earns interest income from its cash and cash equivalents, which will vary from period to period depending on their relative balances.

## 1.9 LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014 the Company had cash of \$578,198 and consolidated working capital of \$743,366, which is sufficient working capital to fund its operations for the next twelve months.

The Company's cash and cash equivalents are highly liquid and held at a major Canadian financial institution.

	Increase (Decrease) in Cash & Cash Equivalents for the Year Ended December 31	
	2014	2013
Operating activities	\$ (631,358)	\$ (767,324)
Investing activities	481,048	131,977
Financing activities	-	(281,740)
Total Change in Cash	(150,310)	(917,087)
Cash and Cash Equivalents, Beginning of the Year	728,508	1,645,595
Cash and Cash Equivalents, End of the Year	\$ 578,198	\$ 728,508

The Company currently has no liability outstanding to Solitario for its pro-rata share of post-BFS expenditures and the Company has notified Solitario that they will elect to have Solitario fund its share of any MH-LLC expenditures in 2015.

The Company has obligations in the next twelve months to maintain the purchase options on the Cox Claims and Cathedral Well as well as claim maintenance fees, which approximate \$100,000. There are no work commitments on these properties in 2015.

### *Operating Activities*

The nature of the Company's operating activities have not significantly changed when compared to the comparative year. There was an increase of \$165,379 in items not affecting cash that included a loss of \$261,100 relating to the change in the fair value of deferred compensation. The changes in non-cash working capital items decreased by \$22,429 when compared to the comparative period, which was affected by the \$38,124 change relating to deferred compensation.

### *Investing Activities*

For the year ending December 31, 2014, the increase in cash provided by investing activities when compared to the prior year is a result of the Company disposing of marketable securities during the current year. As well, additional cash outflows were incurred in the prior year as a result of the Company acquiring its Green Springs property.

### *Financing Activities*

During the year ended December 31, 2014 the Company did not issue common shares. During the prior year, the Company issued 18,702,504 common shares for total \$1,870,250.

The Company currently has no revenues from operations and has been dependent on equity financing to fund its operations. Management has been successful in accessing the equity markets in prior years, but there is no assurance that such sources will be available, on acceptable terms, or at all in the future. Factors which could impact management's ability to access the equity markets include the state of capital markets, market prices for natural resources and the non-viability of the projects.

## **1.10 TRANSACTIONS WITH RELATED PARTIES**

Key management comprises directors and executive officers. The Company did not pay post-employment benefits and long-term benefits to key management. The following compensation was paid to key management as of December 31:

	2014	2013
Short-term employment benefits	\$ 439,090	\$ 462,028
Other long-term employment benefits	353,536	329,568
Share-based payments	123,944	90,624
Total	\$ 916,570	\$ 882,220

As at December 31, 2014, \$22,010 (2013 - \$5,250) is owing to related parties for consulting fees, which is included in accounts payable and accrued liabilities. A prepaid advance of \$18,574 (2013 - \$13,042 (US \$12,000)) was made to an officer and director of the Company.

As at December 31, 2014, \$1,631,016 (2013 - \$903,793) is owing to the Company's President & CEO and its Executive Chairman for deferred compensation; \$1,218,018 (December 31, 2013 - \$647,899) is payable January 1, 2016 and \$412,998 (December 31, 2013 - \$255,894) is payable January 1, 2020. The deferred compensation is related to the Company's wholly owned US subsidiary, DHI US and its participation in the management of MH-LLC and other US assets discussed in Section 3. It is a Non Qualified Deferred Compensation Plan as defined under Section 409A of the US Internal Revenue Code and is managed by Denver Compensation & Benefits, LLC of Greenwood Village, Colorado. The related parties hold the positions of President, Secretary/Treasurer and Directors of DHI US and are both representatives on the MH-LLC Management Committee. The purpose of the deferred compensation is to (a) conserve the Company's capital resources and (b) provide a retirement benefit to its executives. Neither the Company nor any of its subsidiaries has any other qualified, non-qualified or health benefit plans for the related parties. Details of all deferred compensation are fully disclosed in the Company's most recent annual Information Circular to Shareholders that can be found on SEDAR.

On April 1, 2014, the Company amended the terms of the payment of consulting fees so that the amount payable accrues interest, adjusted and compounded each quarter, at the Prime Rate (defined as the rate published by the Wall Street Journal on the last business day of the quarter, plus 2%). Due to the long-term nature of the payment of the deferred compensation, the carrying value of the estimated obligation of \$1,631,016 (2013 - \$903,793) represents the expected payment obligation in the future, discounted at December 31, 2014 using an effective interest rate of 10%. Prior to this amendment, the payment of consulting fees was indexed to the DJIA and the value of the deferred compensation fluctuated based on the movements in the DJIA index. Management determined that the amended terms were substantially different to the terms previously in place and accounted for the amendment as an extinguishment of the original liability and recognition of a new liability in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

During the year ended December 31, 2014, the Company recognized in net loss:

- an increase in the value of the deferred compensation liability of \$261,100 (2013 a decline in the value of the deferred compensation liability of \$101,531); and
- an interest expense of \$62,275 (2013 - \$nil).

All other amounts due to related parties are payable on demand. Interest is not charged on outstanding balances.

The Company entered into termination clause agreements with four of the Company's officers and directors, whereby the officers and directors are entitled to a cumulative amount of \$1,000,000 in the event they are terminated without cause; or \$1,960,000 in the event there is a change of control.

## 1.11 SHARE CAPITAL AND DISCLOSURE OF OUTSTANDING SHARE DATA

At December 31, 2014 the authorized share capital was an unlimited number of common shares and there were 80,312,749 common shares issued and outstanding. As at the date of this MD&A the Company had 80,312,749 common shares issued and outstanding.

### Stock Options and Warrants

The following summarizes information on the number of stock options outstanding at December 31, 2014:

Expiry Date	Exercise Price	Number of options
June 4, 2015	\$ 0.20	750,000
July 7, 2015	\$ 0.15	1,000,000
September 1, 2015	\$ 0.15	1,000,000
January 5, 2016	\$ 0.25	800,000
February 26, 2017*	\$ 0.12	600,000
July 24, 2017	\$ 0.14	200,000
September 22, 2021	\$ 0.20	1,300,000
January 30, 2023	\$ 0.14	400,000
January 28, 2024	\$ 0.12	900,000
November 27, 2024	\$ 0.06	900,000
Total		7,850,000

The following summarizes information on the number of warrants outstanding at December 31, 2014:

Expiry Date	Exercise Price	Number of warrants
February 28, 2015*	\$ 0.32	4,000,000
		4,000,000

\* During the three months ended March 31, 2013, these warrants were extended for a period of two years from February 28, 2013 to February 28, 2015.

On February 28, 2015, 4,000,000 warrants expired unexercised.

### Outstanding share data

As at the date of this report, the Company's fully diluted shares outstanding is as follows:

Common shares	80,312,749
Options	7,850,000
Fully diluted shares outstanding	88,162,749

## **1.12 OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **1.13 PROPOSED TRANSACTIONS**

The Company has no proposed transactions.

## **1.14 CONTRACTUAL OBLIGATIONS**

On February 22, 2012, MH-LLC completed a BFS and accordingly Solitario has earned an 80% interest in MH-LLC. Per the Operating Agreement, once Solitario has completed the BFS, all costs will be shared by Solitario and DHI US pro-rata based on the equity interest owned. DHI US may elect to contribute its share of such expenditures or borrow its share from Solitario at a commercially competitive rate of interest.

In the event DHI US's share of such post-BFS expenditures are funded by Solitario, Solitario shall recover all loans and accrued interest made to DHI US's behalf exclusively from eighty percent of DHI US's share of distributions from MH-LLC.

MH-LLC has operated through the year ending December 31, 2014 using funds from the sale of the Sandstorm NSR that was completed in 2012. As at December 31, 2014, the Company has no liability outstanding to Solitario for its pro-rata share of post-BFS expenditures and MH-LLC had a cash balance of approximately \$350,000. The MH-LLC Management Committee has approved a budget of \$1,000,000 for 2015 and the Company has notified Solitario that they will elect to have Solitario fund its share of any MH-LLC expenditures in 2015.

The Company has obligations to maintain the purchase options on the Cox Claims and Cathedral Well gold project as well as claim maintenance fees, which is estimated to be \$100,000 over the next twelve months. There are no required work commitments on these properties in 2015. The Company will need to raise additional equity or enter into some other type of joint venture to initiate a drilling program at the Green Springs project in 2015.

The Company has no commitments, material capital lease agreements and no material long term obligations other than the above.

## **1.15 RISKS AND UNCERTAINTIES**

The Company is in the mineral exploration and development business and has not commenced commercial operations and has no assets other than cash and mineral property agreements under option. It has no history of earnings, and it is not expected to generate earnings or pay dividends in the foreseeable future.

### **Precious and Base Metal Price Fluctuations**

The profitability of the precious and base metal operations in which the Company has an interest will be significantly affected by changes in the market prices of precious and base metals. Prices for precious and base metals fluctuate on a daily basis, have historically been subject to wide fluctuations and are affected by numerous factors beyond the control of the Company such as the level of interest rates, the rate of inflation, central bank transactions, world supply of the precious and base metals, foreign currency exchange rates, international investments, monetary systems, speculative activities, international economic conditions and political developments. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. Declining market prices for these metals could materially adversely affect the Company's operations and profitability.

### **Fluctuations in the Price of Consumed Commodities**

Prices and availability of commodities consumed or used in connection with exploration, development and mining, such as natural gas, diesel, oil, electricity, cyanide and other reagents fluctuate affecting the costs of exploration in our operational areas. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on our operating costs or the timing and costs of various projects.

### **Foreign Exchange Rate Fluctuations**

Operations may be subject to foreign currency exchange fluctuations. The Company to-date has raised its funds through equity issuances which are priced in Canadian dollars. DHI US and MH-LLC operate in the United States and incur exploration and administration expenditures denominated in United States dollars. As a result, the Company may suffer losses due to adverse foreign currency fluctuations.

### **Competitive Conditions**

Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Company may be unable to either compete for or acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will be able to acquire any interest in additional projects that would yield reserves or results for commercial mining operations.

### **Operating Hazards and Risks**

Exploration activities may generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, the following: environmental hazards, industrial accidents, third party accidents, unusual or unexpected geological structures or formations, fires, power outages, labor disruptions, floods, explosions, cave-ins, land-slides, acts of God, periodic interruptions due to inclement or hazardous weather conditions, earthquakes, war, rebellion, revolution, delays in transportation, inaccessibility to property, restrictions of courts and/or government authorities, other restrictive matters beyond the reasonable control of the Company, and the inability to obtain suitable or adequate machinery, equipment or labor and other risks involved in the normal course of exploration activities.

Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, delayed production and resultant losses, increased production costs, asset write downs, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company

may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company's financial position.

### **Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. The lack of availability of acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of the Company's projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of the Company's projects will be commenced or completed on a timely basis, if at all.

### **Exploration and Development**

There is no assurance given by the Company that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body or yield new reserves to replace or expand current reserves.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At this time, none of the Company's properties have any defined ore-bodies with proven reserves.

The economics of developing silver, gold and other mineral properties are affected by many factors including capital and operating costs, variations of the tonnage and grade of ore mined, fluctuating mineral markets, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the prices of silver, gold or other minerals produced, the Company may determine that it is impractical to commence or continue commercial production. Substantial expenditures are required to discover an ore-body, to establish reserves, to identify the appropriate metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for an exploitation concession. There can be no guarantee that such a concession will be granted. Unsuccessful exploration or development programs could have a material adverse impact on the Company's operations and profitability.

### **Business Strategy**

As part of the Company's business strategy, it has sought and will continue to seek new exploration and development opportunities in the mining industry. In pursuit of such opportunities, it may fail to select appropriate acquisition candidates, negotiate appropriate acquisition terms, conduct sufficient due diligence to determine all related liabilities or to negotiate favorable financing terms. The Company may encounter difficulties in transitioning the business, including issues with the integration of the acquired businesses or its personnel into the Company. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favorable terms, or that any acquisitions or business arrangements completed will ultimately benefit its business.

### **Environmental Factors**

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that any future changes in

environmental regulation, will not adversely affect the Company's operations. The costs of compliance with changes in government regulations have the potential to reduce the profitability of future operations. Environmental hazards that may have been caused by previous or existing owners or operators may exist on the Company's mineral properties, but are unknown to the Company at the present.

#### **Title to Assets**

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore, the precise area and location of such claims may be in doubt. The Company's claims may be subject to prior unregistered agreements or transfers, or native land claims, and title may be affected by unidentified or unknown defects. The Company has conducted as thorough an investigation as possible on the title of properties that it has acquired or will be acquiring to be certain that there are no other claims or agreements that could affect its title to the concessions or claims. If title to the Company's properties is disputed, it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

#### **Uncertainty of Funding**

The Company has limited financial resources, and the mineral claims in which the Company has an interest or an option to acquire an interest require financial expenditures to be made by the Company. There can be no assurance that adequate funding will be available to the Company so as to exercise its option or to maintain its interests once those options have been exercised. Further exploration work and development of the properties in which the Company has an interest or option to acquire depend upon the Company's ability to obtain financing through joint venturing of projects, debt financing or equity financing or other means. Failure to obtain financing on a timely basis could cause the Company to forfeit all or parts of its interests in mineral properties or reduce or terminate its operations.

#### **Agreements with Other Parties**

The Company has entered into agreements with other parties relating to the exploration, development and production of its properties. The Company may in the future, be unable to meet its share of costs incurred under agreements to which it is a party, and the Company may have its interest in the properties subject to such agreements reduced as a result. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the costs required to complete recommended programs.

#### **Potential Conflicts of Interest**

The directors and officers of the Company may serve as directors and/or officers of other public and private companies, and may devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of British Columbia, Canada, require the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, directors and officers of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger properties and programs; (ii) acquire an interest in a greater number of properties and programs; and (iii) reduce their financial exposure to any one property or program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors and



officers of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

### **Third Party Reliance**

The Company's rights to acquire interests in certain mineral properties may have been granted by third parties who themselves may hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

### **Assurance on Financial Statements**

We prepare our financial reports in accordance with accounting policies and methods prescribed by IFRS. In the preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies and practices are described in more detail in the notes to our consolidated financial statements for the years ended December 31, 2014 and 2013. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, we have implemented and continue to analyze our internal control systems for financial reporting. Although we believe our financial reporting and consolidated financial statements are prepared with reasonable safeguards to ensure reliability, we cannot provide absolute assurance in that regard.

### **General Economic Conditions**

The unprecedented events in global financial markets during the last few years have had a profound effect on the global economy. Many industries, including the gold and silver mining industry, are affected by these market conditions. Some of the key effects of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability.

### **Substantial Volatility of Share Price**

In recent years, the securities markets have experienced a high level of price and volume volatility, and the securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The price of the Company's common shares is also likely to be significantly affected by short-term changes in mineral prices or in the Company's financial condition or results of operations as reflected in its quarterly financial reports.

### **Potential dilution of present and prospective shareholdings**

In order to finance future operations and development efforts, the Company may raise funds through the issue of common shares or the issue of securities convertible into common shares. The Company cannot predict the size of future issues of common shares or the issue of securities convertible into common shares or the effect, if any, that future issues and sales of the Company's common shares will have on the market price of its common shares. Any transaction involving the issue of shares, or securities convertible into shares, could result in dilution, possibly substantial, to present and prospective holders of shares.

## 1.16 FUTURE ACCOUNTING STANDARDS

### ***Changes to accounting policies***

The following accounting standards and amendments to existing standards were adopted effective January 1, 2014:

IAS 32 *Financial Instruments: Presentation* clarifies certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- The meaning of “currently has a legally enforceable right of set-off”;
- The application of simultaneous realization and settlement;
- The offsetting of collateral amounts; and
- The unit of account for applying the offsetting requirements.

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

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

### ***Changes in accounting standards not yet adopted***

The Company has reviewed new and revised accounting pronouncements that have been issued, but are not yet effective. The Company has not early-adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

#### 1) IFRS 9 *Financial Instruments* (2014)

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity’s own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to the Company’s annual period beginning on January 1, 2018.

#### 2) *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11)

Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

Note: The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted.

Applicable to the Company's annual period beginning on January 1, 2017.

### 3) *Equity Method in Separate Financial Statements* (Amendments to IAS 27)

Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Applicable to the Company's annual period beginning on January 1, 2017.

### 4) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)

Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e., a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g., whether the sale or contribution of assets occurs by an investor transferring shares in an subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

Applicable to the Company's annual period beginning on January 1, 2017.

## **1.17 FINANCIAL INSTRUMENTS**

The Company classifies its cash and cash equivalents, shares receivable and deferred compensation as FVTPL; marketable securities, as available-for-sale; other receivables, as loans and receivables; and accounts payable and accrued liabilities and other liabilities and deferred compensation (amended terms), as other financial liabilities.

The carrying value of cash and cash equivalents, marketable securities, and shares receivable have been based on quoted market prices, a Level 1 measurement according to the fair value hierarchy. The carrying value of other receivables approximate fair value, as the instruments are subject to market rates of interest. The carrying value of accounts payable and accrued liabilities approximate fair value, due to the short term to maturity of these financial instruments.

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

(a) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of cash and cash equivalents, by placing its cash balances at a major Canadian financial institution. The Company manages credit risk, in respect of additional consideration receivable from Solitario, by holding a security of Solitario's interest in MH-LLC. Should Solitario default on any of the payments to DHI US, Solitario's interest will be reduced from 80% to 49%, and the Company's interest will increase to 51%.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at major Canadian financial institutions, and with respect to other receivables, as it is due from only one party. The Company's concentration of credit risk and maximum exposure thereto as of December 31 is as follows:

	2014		2013	
Cash and cash equivalents	\$	578,198	\$	728,508
Receivables	\$	-	\$	291,105

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2014, the Company has cash and cash equivalents of \$578,198 (2013 - \$728,508), current liabilities of \$54,010 (2013 - \$109,928) and working capital of \$743,366 (2012 - \$1,397,226).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2014 and 2013:

Due Date	December 31, 2014			December 31, 2013		
	Accounts Payable and Accrued Liabilities	Deferred Compensation		Accounts Payable and Accrued Liabilities	Deferred Compensation	
0 – 90 days	\$ 54,010	\$ -		\$ 109,928	\$ -	
90 – 365 days	\$ -	\$ -		\$ -	\$ -	
More than 1 year	\$ -	\$ 1,631,016		\$ -	\$ 903,793	

(c) Market risk

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

(i) Interest rate risk

Interest rate risk consists of two components:

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

Fluctuations in the interest rates impact the value of cash equivalents. As at December 31, 2014, the impact of interest rates on the Company is not deemed significant. The Company's other liabilities are not exposed to interest rate risk, as they are carried at amortized cost.

(ii) Foreign currency risk

The Company incurs expenditures in Canada and the US and has deferred compensation payable in US dollars. Foreign currency risk arises because the amount of the US dollar cash, intercompany balances and payables will vary in Canadian dollar terms due to changes in exchange rates.

As at December 31, 2014, the Company has not hedged its exposure to currency fluctuations.

At December 31, 2014 and 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	2014		2013	
Cash and cash equivalents	US\$	446,495	US\$	654,111
Amounts receivable <sup>(1)</sup>		-		250,000
Other financial liabilities <sup>(2)</sup>		(1,425,927)		(873,860)
Net	US\$	(979,432)	US\$	30,251
Canadian dollar equivalent		(1,136,239)		32,175

(1) Includes receivables and other receivables.

(2) Includes accounts payable and accrued liabilities and deferred compensation.

Based on the above net exposures as at December 31, 2014, a 5% (2013 - 5%) change in the Canadian/US exchange rate would impact the Company's loss and comprehensive loss by approximately \$56,812 (2013 - \$3,533).

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

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk on its deferred compensation, which accrues interest at the Prime Rate. At December 31, 2014, a 1% change in the Prime Rate would impact the Company's earnings by approximately \$41,000. At December 31, 2013, a 5% change in the DJIA would impact the Company's earnings by approximately \$58,000. The Company is not exposed to significant price risk on its marketable securities.

(iv) Fair value hierarchy

The following tables summarize the Company's financial instruments under the fair value hierarchy, as at December 31, 2014 and 2013:

December 31, 2014	Level 1	Level 2	Level 3	Total
<b>FVTPL</b>				
Cash and cash equivalents	\$ 578,198	\$ -	\$ -	\$ 578,198
<b>Available-for-sale</b>				
Marketable securities	\$ 188,911	\$ -	\$ -	\$ 188,911
<b>Other financial liabilities</b>				
Deferred compensation	\$ -	\$ 1,631,016	\$ -	\$ 1,631,016

December 31, 2013	Level 1	Level 2	Level 3	Total
<b>FVTPL</b>				
Cash and cash equivalents	\$ 728,508	\$ -	\$ -	\$ 728,508
Shares receivable	\$ 43,500	\$ -	\$ -	\$ 43,500
Deferred compensation	\$ -	\$ 903,793	\$ -	\$ 903,793
<b>Available-for-sale</b>				
Marketable securities	\$ 461,166	\$ -	\$ -	\$ 461,166
<b>Loans and receivables</b>				
Cash portion of other receivables	\$ -	\$ -	\$ 247,605	\$ 247,605

Additional information related to the Company is found on SEDAR at [www.sedar.com](http://www.sedar.com).