

# **ELY GOLD & MINERALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015**

**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 three and nine months ended September 30, 2015 and 2014. The discussion below should be read in conjunction with the Company’s September 30, 2015 unaudited condensed interim 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 November 27, 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>

## 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 August 25, 2015, the Company completed the sale of its' 20% interest in the Mt. Hamilton Project. Refer to the Project Updates and Acquisition section for complete details.
- On August 27, 2015, the Company closed the Consent Agreement with Solitario Exploration & Royalty Corp. ("Solitario") whereby 15,732,274 of the Company's common shares were received and returned to treasury reducing its issued and outstanding share capital to 64,580,475 common shares.
- On September 10, 2015, the Company settled the deferred compensation liability for \$1,692,032 (US\$1,280,000).
- As of September 30, 2015, the Company had cash of \$6,082,140 and consolidated working capital of \$5,879,096.

## 1.5 PROJECT UPDATES AND ACQUISITION

### i. The Purchase of DHI US from Augusta Resource Corp.

On February 28, 2008, the Company acquired 100% of the issued and outstanding common shares of DHI which in turn owns 100% of the shares of DHI US, pursuant to an agreement (the "**Augusta Agreement**") with Augusta Resource Corp. DHI US was at that time the owner of 100% of the Mount Hamilton property (collectively, with related leasehold and other rights, the "**Mt. Hamilton Project**").

For more of the history of the history of the Mt. Hamilton Property purchase the reader should refer to the Company's previous MD&A filings on SEDAR.

### ii. The Joint Venture with Solitario

On August 26, 2010, Ely Gold and DHI US entered into an agreement (the "**JV Agreement**") with Solitario Exploration & Royalty Corp ("**Solitario**") pursuant to which Solitario was granted the right to acquire up to an 80% interest in the Mt. Hamilton Project by funding future payments on account of the Purchase Price by subscribing for securities of Ely, making all future advance royalty payments on account of the Underlying Royalties, funding exercise of the First, Second and Third Royalty Reduction Options, and funding the continued exploration and development of the Mt. Hamilton Property through to a Bankable Feasibility Study (the "**BFS**"), at which time all expenses would be shared according to the partner's ownership interest.

In December 2010, Solitario and DHI US established MH-LLC as a Colorado limited liability company to conduct joint operations. Solitario and DHI US entered into an operating agreement (the "Operating Agreement") with DHI US to govern the development of the property in accordance with the terms of the JV Agreement.

On February 22, 2012, Solitario earned an 80% interest in MH-LLC by completion of a BFS and had the following Continuing Payment Obligations and share issuances:

- (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) 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;

- (iv) and provide funding for all bonding requirements to achieve commercial production (the **"Bonding Obligations"**)

In addition, the JV Agreement provided that Solitario would subscribe for additional securities of Ely in three tranches of US\$750,000, US\$750,000 and US\$1,000,000 not later than June 1, 2013, June 1, 2014 and June 1, 2015 respectively to exercise its rights under the JV Agreement. Proceeds from those private placements were to be used by Ely to make required payments to Augusta on account of the Purchase Price. In November, 2013, Ely negotiated a reduction in the final two payments to Augusta to \$1,300,000. Solitario subsequently subscribed to Ely shares and the final payment was made. Solitario held 15,732,274 Ely common shares (**"Solitario's Ely Shares"**) acquired pursuant to those private placements, representing approximately 19.6% of Ely's outstanding shares.

#### *DHI US Approves Solitario RMB Loan*

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.

For more of the history of the history of the management of MH-LLC the reader should refer to the Company's previous MD&A filings on SEDAR.

### **iii. The Waterton Transaction**

On May 6, 2015 the Company and Solitario (the **"Sellers"**) signed a non-binding letter of intent (the **"Waterton LOI"**) with Waterton Precious Metals Fund II Cayman, LP outlining the intent of the parties to negotiate a definitive agreement for the sale of 100% of the Sellers' Interests in MH-LLC (the **"Interests"**) for US\$30,000,000, allocated as to 80% (US\$24,000,000) to Solitario and as to 20% (US\$6,000,000) to DHI US (the **"Transaction"**). On June 10, 2015, Solitario, DHI US, the Company and Waterton executed and delivered the Membership Interest Purchase Agreement (the **"MIPA"**) as the definitive agreement contemplated by the letter of intent. Waterton is a wholly-owned subsidiary of Waterton Precious Metals Fund II Cayman, LP. The MIPA may be viewed in its entirety on SEDAR.

#### *The Consent Agreement*

Concurrent with the signing of the MIPA, and also independent of the Transaction, the Company, DHI US and Solitario entered into an arm's length agreement (the **"Consent Agreement"**) pursuant to which Solitario has agreed to surrender Solitario's Ely Shares to the Company for cancellation in exchange for

- (a) the Company and DHI US consenting to Solitario pledging its Interest as security for any refinancing required by Solitario to any third party loans, including a refinancing to repay the RMB Loan;
- (b) Ely and DHI US waiving Solitario's obligation to fund the exercise of the Royalty Reduction Options and the Bonding Obligations; and
- (c) DHI US repaying loans (the **"JV Loans"**) made to DHI US by Solitario pursuant to the MH-LLC Operating Agreement to fund DHI US' Joint Venture obligations to MH-LLC, \$240,887 (US\$191,150), if the transactions contemplated by the Consent Agreement close on the date of a sale of MH-LLC to Waterton.

The Exchange conditionally approved the Consent Agreement on June 26, 2015 and the Consent Agreement was closed on August 27, 2015. Subsequently, 15,732,274 of the Company's common shares were received and returned to the treasury reducing its issued and outstanding share capital to 64,580,475 common shares. The Consent Agreement may be viewed in its entirety on SEDAR.

#### *Fairness Opinion of Maxit Capital LLP*

The Company entered into an engagement letter with Maxit Capital LLP ("Maxit") during November, 2014 to provide the Company with an opinion as to the fairness of the consideration to be received upon completion of the Transaction, from a financial point of view, to the Company. At a meeting of the Company's Board of Directors held on June 5, 2015, Maxit provided the Board of Directors with an oral opinion to the effect that the consideration to be received by the Company on completion of the Transaction is fair, from a financial point of view, to the Company. That oral opinion was subsequently confirmed and supplemented with a written opinion (the "**Fairness Opinion**") to the same effect. The Fairness Opinion was one of a number of factors taken into consideration by the Board of Directors in considering the merits of the Transaction. Maxit acted as financial advisor to the Company in connection with the Transaction and was paid a fee of \$200,000 for its services. The Fairness Opinion may be viewed in its entirety on SEDAR.

#### *Deferred Management Compensation*

Completion of the Transaction triggered an obligation on the part of DHI US to pay deferred management compensation which has accrued pursuant to a plan (the "**DMC Plan**") established by DHI US effective January 1, 2011. The DMC Plan was designed to permit those members of management ("**Participants**") who participate in the DMC Plan to defer all or a portion of the compensation otherwise payable to them until the occurrence of certain stated events, including a "Change of Control". A "Change of Control" is defined in the DMC Plan to include a change of ownership of a "substantial portion" (defined as greater than 60%) of the assets of DHI US. The completion of the Transaction resulted in a change of ownership of a "substantial portion" of the assets of DHI US and, accordingly, triggered an obligation on the part of DHI US to pay to the Participants the balances in their respective Accounts.

On September 10, 2015, the Company settled the outstanding deferred compensation liability, which included deferred salaries and interest totaling US\$1,816,547 by paying US\$1,280,000 (\$1,692,032), which resulted in the Company realizing a \$558,090 gain on settlement. Upon settlement of the deferred compensation liability, the Company terminated the DCM Plan. On September 15, 2015, all consulting contracts with DHI US were cancelled by mutual consent.

#### **iv. Exchange Acceptance and Shareholder Approval**

On June 19, 2015, the Exchange granted conditional approval of the Transaction. Conditions for final acceptance included a shareholder vote and a press release announcing the closing of the Transaction. Because the Transaction constituted greater than 50% of the Company's assets, the Business Corporations Act (B.C.) required that a special resolution approving the Transaction be passed by 2/3 of the votes cast at a meeting of shareholders.

A Special General Meeting of shareholders was held on July 31. The special resolution was unanimously passed with 99.47% of 27,900,922 voting shares approving the Transaction.

On August 25, 2015, the Transaction closed and subsequently the Consent Agreement closed on August 27, 2015. Upon closing of the Transaction the Company received cash proceeds of 7,977,600 (US\$6,000,000). On closing of the Consent Agreement, the Company returned 15,732,274 of its common shares to the treasury.

## **v. Mineral Properties**

### **Green Springs, Nevada**

On February 4, 2013, 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 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 Mine.

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. In November 2014, the Company submitted an Intent Notice for less than a 5 acre disturbance to the Bureau of Land Management ("BLM") in the area around two historic waste dumps and the Notice was approved in January 2015.

On November 12, 2015, the Company completed a 14 hole drill program at Green Springs for a total of 6775 feet. The program was designed to test historic mineralization in the Chainman Shale and some selected targets in the deeper Pilot Shale. Assay results are pending.

### **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 the Company 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 the Company'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, the Company 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, the Company 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 the Company 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 the Company properties. the Company 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 the Company 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. The



Company will be the operator of the program, with technical assistance from EMX through a defined Management Committee arrangement during the option period.

### **Nevada Eagle LLC**

Earlier in the year, the Company began negotiations with Gerald W Baughman of Reno, Nevada (“Baughman”) for the purchase of Nevada Eagle LLC (“NEL”), a private Nevada company controlled by Baughman. NEL is a project generator that stakes mineral properties and options them to third parties while retaining royalties. Following months of due diligence the Company presented Baughman with a draft Letter of Intent on August 31, 2015. Negotiations ensued, and in anticipation of the transaction, DHI US advanced NEL US\$50,000 to stake certain properties identified by Baughman. After receiving the US\$50,000 from DHI US, Baughman staked several properties. On October 4, 2015, however, Baughman notified the Company that he longer wanted to sell NEL. The Company advised Baughman that regardless of a transaction, the properties were staked on behalf of DHI US, with NEL acting as the Company’s agent.

On October 12, 2015, Nevada Eagle and Baughman filed a complaint in The Second Judicial Court of the State of Nevada naming the Company and DHI US as (“Defendants”). The complaint seeks to quiet title in the disputed properties in NEL, and claims that the Defendants slandered the title to the properties and Baughman’s membership interests in NEL. The complaint seeks injunctive relief, punitive damages, and attorney’s fees. The Company’s attorneys have responded to the complaint with a Motion to Dismiss filed on November 2, 2015. The Company will vigorously defend itself and is confident that it will prevail in these actions.

## **1.6 RESULTS OF OPERATIONS**

### **Three months ended September 30, 2015, compared to the three months ended September 30, 2014.**

The Company recorded a gain of \$7,688,195 (\$0.10 gain per common share) for the three months ended September 30, 2015 (the “current quarter”) compared to a net loss of \$392,411 (\$0.00 loss per common share) during the three months ended September 30, 2014 (the “comparative quarter”), an increase of \$8,080,606, as explained in the following paragraphs.

- Consulting fees were \$5,431 lower in the current quarter (\$183,791) when compared to the comparative quarter (\$189,222). The decrease relates consulting fees that ceased to be charge and deferred as at September 10, 2015 as a result of the settlement and discontinuation of the Company’s deferred compensation plan. In comparison, the comparative quarter included deferred consulting fees up to September 30, 2015.
- Professional fees were \$118,807 lower in the current quarter (recovery - \$91,267) when compared to the comparative quarter (\$27,540). Legal fees relating to the sale of the Company’s Mt. Hamilton Project were reclassified in gain on disposition of MH-LLC interest as transaction costs.
- Interest expense was \$12,147 higher in the current quarter (\$32,394) when compared to the comparative quarter (\$20,247). Interest expense relates to the interest on the deferred compensation. The deferred compensation liability was settled on September 10, 2015.
- Change in fair value of marketable securities was \$52,434 lower in the current quarter (\$22,677) when compared to the comparative quarter (\$75,111). During the comparative quarter, the market value of the Solitario shares held by the Company decreased in value. As well, the Company owns less Solitario shares when compared to the comparative quarter, which decreases the financial statement impact of a change in the fair market value of Solitario’s shares.

- Gain on the settlement of deferred compensation was \$558,090 higher in the current quarter (\$558,090) when compared to the comparative quarter (\$nil). During the current quarter, the Company settled the deferred compensation liability.
- Gain on the disposition of MH-LLC interest was \$7,411,682 higher in the current quarter (\$7,411,682) when compared to the comparative quarter (\$nil). During the current quarter, the Company completed the sale of its interest in MH-LLC.
- Gain (loss) arising from foreign exchange was \$54,509 lower in the current quarter (gain - \$8,733) when compared to the comparative quarter (loss - \$45,776). Gains (losses) from foreign currency will fluctuate from period to period based on changes in the CAD/USD exchange rate as the Company has cash and accounts payable denominated in US dollars that get revalued at the exchange rate prevailing on the financial statement reporting date.

**Nine months ended September 30, 2015, compared to the nine months ended September 30, 2014.**

The Company recorded a gain of \$6,868,959 (\$0.09 gain per common share) for the nine months ended September 30, 2015 (the "current period") compared to a net loss of \$685,747 (\$0.01 loss per common share) during the nine months ended September 30, 2014 (the "comparative period"), an increase of \$7,554,706, as explained in the following paragraphs.

- Consulting fees were \$22,284 lower in the current period (\$600,349) when compared to the comparative period (\$622,633). The decrease is due to a reduction in the number of consultants engaged in the current period when compared to the comparative period, which was offset by an increase in consulting fees that are paid in US dollars. As well, the decrease relates consulting fees that ceased to be charge and deferred as at September 10, 2015 as a result of the settlement and discontinuation of the Company's deferred compensation plan. In comparison, the comparative quarter included deferred consulting fees up to September 30, 2015.
- Professional fees were \$8,977 lower in the current period (\$42,492) when compared to the comparative period (\$51,469). During the current period, the Company incurred additional legal fees as a result of the work relating to the sale of the Company's Mt. Hamilton Project, which was then deducted as transaction costs in arriving at the gain on disposition of MH-LLC interest.
- Share-based payments, a non-cash expense, was \$91,921 lower in the current period (\$nil) when compared to the comparative period (\$91,921). No options were granted in the current period whereas 900,000 options were granted and vested during the comparative period.
- Interest expense was \$74,710 higher in the current period (\$113,990) when compared to the comparative period (\$39,280). Interest expense relates to the interest on the deferred compensation. The deferred compensation liability was settled on September 10, 2015.
- Change in fair value on marketable securities was \$353,429 lower in the current period (loss: \$56,707) when compared to the comparative period (gain: \$296,722). During the current period the fair market value of the Solitario shares held by the Company decreased in value. In the comparative period the Company held a greater number of Solitario shares when compared to the current period and the market value was higher in the comparative period, which would have increased the impact to the Company in the comparative period when there was a change in the market value of Solitario's shares.
- Loss on disposal of marketable securities was \$1,183 lower in the current period (\$\$1,183) when compared to the comparative period (\$nil). During the current period, the Company disposed of Solitarios' shares whereas none were disposed of in the comparative quarter.

- Gain on the settlement of deferred compensation was \$558,090 higher in the current period (\$558,090) when compared to the comparative period (\$nil). During the current period, the Company settled the deferred compensation liability.
- Gain on the disposition of MH-LLC interest was \$7,411,682 higher in the current period (\$7,411,682) when compared to the comparative period (\$nil). During the current period, the Company completed the sale of its interest in MH-LLC.
- Gain/loss arising from foreign exchange was \$155,504 lower in the current period (\$45,776) when compared to the comparative period (\$112,111). The Company has mineral properties in the US and incurs US dollar payables, which can result in fluctuations in the gain/loss arising from foreign exchange on a period by period basis. As well, the Company holds a balance of its cash and cash equivalents in US dollars, which are revalued at the prevailing exchange rate as at the date of the balance sheet.

## 1.7 ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The material component of exploration and evaluation costs are:

	Nine months ended September 30, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Exploration and evaluation costs			
Geological consulting	\$ 9,588	\$ 120,399	\$ 80,052
Claim maintenance	29,128	36,590	12,124
	\$ 38,716	\$ 156,989	\$ 92,176

## 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

	Sept 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
Total revenues (Interest & other income)	\$16	\$92	\$53	\$47
Gain (loss) for the quarter	\$7,688,195	(\$401,766)	(\$417,470)	(\$612,704)
Gain (loss) per share	\$0.10	(\$0.00)	(\$0.01)	(\$0.02)

### For the quarters ended

	Sept 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013
Total revenues (Interest & other income)	\$109	\$ -	\$2,541	\$7,975
Gain (loss) for the quarter	(\$392,411)	(\$211,556)	(\$81,780)	\$123,007
Gain (loss) per share	(\$0.00)	(\$0.00)	(\$0.00)	\$0.00

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

The quarter ended September 30, 2015, includes the gain of \$7,411,682 on the disposition of the MH-LLC interest and the gain of \$558,090 on the settlement of the deferred compensation liability.

The quarter ended June 30, 2015, includes interest expense of \$81,596 and a change in fair value of deferred compensation of \$126,820.

## 1.9 LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2015 the Company had cash of \$6,082,140 and a consolidated working capital of \$5,879,096. On August 25, 2015, the Company completed the sale of its 20% interest in the Mt. Hamilton Project and received proceeds of \$7,977,600 (US\$6,000,000), which is sufficient 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.

	<b>Increase (Decrease) in Cash &amp; Cash Equivalents for the Nine Months Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
Operating activities	\$ (2,119,803)	\$ (508,565)
Investing activities	7,623,745	100,587
Financing activities	-	-
Total Change in Cash	5,503,942	(407,978)
Cash and Cash Equivalents, Beginning of the Period	578,198	728,508
Cash and Cash Equivalents, End of the Period	\$ 6,082,140	\$ 320,530

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 has not significantly changed when compared to the comparative period. There was an increase of \$7,224,242 in items not affecting cash that included an increase of \$7,411,682 relating to the gain on disposition of MH-LLC interest and an increase of \$558,090 relating to the gain on settlement of deferred compensation liability. The changes in non-cash working capital items increased by \$1,941,702 when compared to the comparative period, which was mainly due to the settlement of the deferred compensation liability of \$1,692,032.

### *Investing Activities*

For the nine months ended September 30, 2015, the increase in cash provided by investing activities when compared to the comparative period is a result of the Company receiving proceeds from the disposition of its MH-LLC interest during the current period.

### *Financing Activities*

For the nine months ended September 30, 2015 and 2014, the Company did not issue common shares.

The Company currently has no revenues from operations and has been dependent on equity or other sources of 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:

	For the three months ended September 30,		For the six months ended September 30,	
	2015	2014	2015	2014
Short-term employment benefits	\$ 113,563	\$ 90,551	\$ 329,412	\$ 336,245
Other long-term employment benefits	-	97,824	-	262,608
Share-based payments	-	-	-	91,921
<b>Total</b>	<b>\$ 113,563</b>	<b>\$ 188,375</b>	<b>\$ 329,412</b>	<b>\$ 690,774</b>

As at September 30, 2015, \$5,250 (December 31, 2014 - \$22,010 ) is owing to related parties for consulting fees, which is included in accounts payable and accrued liabilities. A prepaid advance of \$21,096 (December 31, 2014 - \$18,574) was made to an officer and director of the Company.

As at September 30, 2015 \$nil (December 31, 2014 - \$1,631,016) is owing to related parties for deferred consulting fees. The amounts are included in the condensed interim consolidated statements of financial position as deferred compensation.

On September 10, 2015, the Company paid \$1,692,032 to settle the deferred compensation liability. Upon settlement, the Company recognized a \$558,090 gain on the settlement of the deferred compensation liability. On September 15, 2015, all DHI US consulting contracts with related parties were cancelled by mutual consent.

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 \$Nil (December 31, 2014 - \$1,631,016) represents the expected payment obligation in the future, discounted on the balance sheet date 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 three months ended September 30, 2015, the Company recognized in profit or loss:

- a decrease in the value of the deferred compensation liability of \$119,144 (2014 - \$3,210);
- an interest expense of \$32,394 (2014 - \$20,247); and
- a gain on the settlement of the deferred compensation liability of \$558,090 (2014 - \$nil).

During the nine months ended September 30, 2015, the Company recognized in profit or loss:

- an decrease in the value of the deferred compensation liability of \$245,964 (2014 – \$22,118);
- an interest expense of \$113,990 (2014 - \$39,280); and
- a gain on the settlement of the deferred compensation liability of \$558,090 (2014 - \$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.

On October 17, 2015 the Chairman of the Company, John Brownlie, passed away suddenly, this resulted in a contractual payout of US\$250,000 payable to the estate of John Brownlie.

On November 20, 2015, Tom Wharton was appointed to the Board of Directors by resolution. Tom has over 30 years' experience in start-up, development and financing of early stage companies. He has served as CFO, CEO and Board member for various private & public companies. He is currently on the board of Angel Gold, DV Resources and Dolly Varden Silver.

## 1.11 SHARE CAPITAL AND DISCLOSURE OF OUTSTANDING SHARE DATA

At September 30, 2015 the authorized share capital was an unlimited number of common shares and there were 64,580,475 common shares issued and outstanding, after returning 15,732,274 common shares, previously held by Solitario, to treasury in accordance with the Consent Agreement. As at the date of this MD&A the Company had 64,580,475 common shares issued and outstanding.

### Stock Options and Warrants

The following summarizes information on the number of stock options outstanding at September 30, 2015:

Expiry Date	Exercise Price	Number of options
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		5,100,000

\* Subsequent to September 30, 2015, the exercise price of these options was re-priced to \$0.06 per share and the expiry date extended to January 5, 2021.

\*\* Subsequent to September 30, 2015, the exercise price of these options was re-priced to \$0.06 per share.

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	64,580,475
Options	5,100,000
Fully diluted shares outstanding	69,680,475

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

The Company has no off-balance sheet arrangements.

### **1.13 PROPOSED TRANSACTIONS**

Other than previously stated in this MD&A, the Company has no proposed transactions.

### **1.14 CONTRACTUAL OBLIGATIONS**

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 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 operates in the United States and incurs 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. 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 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 re-measured).

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 a 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, and deferred compensation as fair value through profit or loss ("FVTPL"); marketable securities, as available-for-sale; other receivables, as loans and receivables; and accounts payable and accrued liabilities and deferred compensation (amended terms), as other financial liabilities.

The carrying value of cash and cash equivalents, and marketable securities has 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 is 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 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.

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 is as follows:

	September 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 6,082,140	\$ 578,198

(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 September 30, 2015, the Company has cash and cash equivalents of \$6,082,140 (December 31, 2014 - \$578,198), current liabilities of \$421,411 (December 31, 2014 - \$54,010) and working capital of \$5,879,086 (December 31, 2014 - working capital of \$743,366).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company:

Due Date	September 30, 2015		December 31, 2014	
	Accounts Payable and Accrued Liabilities	Deferred Compensation	Accounts Payable and Accrued Liabilities	Deferred Compensation
0 – 90 days	\$ 421,411	\$ -	\$ 54,010	\$ -
90 – 365 days	\$ -	\$ -	\$ -	\$ -
More than 1 year	\$ -	\$ -	\$ -	\$ 1,631,016

(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 September 30, 2015, 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. 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 September 30, 2015, the Company has not hedged its exposure to currency fluctuations.

At September 30, 2015 and December 31, 2014, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	September 30, 2015	December 31, 2014
Cash and cash equivalents	US\$ 4,294,358	US\$ 446,495
Accounts payable and accrued liabilities	(226,104)	(16,122)
Deferred compensation	-	(1,409,805)
<b>Net</b>	<b>US\$ (4,068,253)</b>	<b>US\$ (979,432)</b>
Canadian dollar equivalent	(5,449,019)	(1,136,239)

Based on the above net exposures as at September 30, 2015, a 5% (2014 - 5%) change in the Canadian/US exchange rate would impact the Company's loss and comprehensive loss by approximately \$273,000 (December 31, 2014 - \$56,812).

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant 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 September 30, 2015 and December 31, 2014:

September 30, 2015	Level 1	Level 2	Level 3	Total
<b>FVTPL</b>				
Cash and cash equivalents	\$6,082,140	\$ -	\$ -	\$6,082,140
<b>Available-for-sale</b>				
Marketable securities	\$ 72,811	\$ -	\$ -	\$ 72,811

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

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