

INTERNATIONAL TOWER HILL MINES LTD  
Form 10-Q  
May 07, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2014**

**OR**

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from    to**

**Commission file number: 001-33638**

## INTERNATIONAL TOWER HILL MINES LTD.

(Exact Name of Registrant as Specified in its Charter)

**British Columbia, Canada**  
(State or other jurisdiction of incorporation or organization)

**N/A**  
(I.R.S. Employer Identification No.)

**2300-1177 West Hastings Street**  
**Vancouver, British Columbia, Canada, V6E 2K3**

**V6E 2K3**

(Address of Principal Executive Offices)

(Zip code)

Registrant's telephone number, including area code: **(604) 683-3332**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Small Reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 5, 2014, the registrant had 98,068,638 Common Shares outstanding.

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**CAUTIONARY NOTE TO U.S. INVESTORS REGARDING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES AND PROVEN AND PROBABLE RESERVES**

International Tower Hill Mines Ltd. ( we , us , our, ITH or the Company ) is a mineral exploration company engaged in the acquisition and exploration of mineral properties. As used in this Quarterly Report on Form 10-Q, the terms mineral reserve , proven mineral reserve and probable mineral reserve are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects ( NI 43-101 ) and the Canadian Institute of Mining, Metallurgy and Petroleum (the CIM ) CIM Definition Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as amended. These definitions differ from the definitions in the United States Securities and Exchange Commission ( SEC ) Industry Guide 7 ( SEC Industry Guide 7 ). Under SEC Industry Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves, and the primary environmental analysis or report must be filed with the appropriate governmental authority. In addition, the terms mineral resource , measured mineral resource , indicated mineral resource and inferred mineral resource are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that all or any part of a mineral deposit in these categories will ever be converted into reserves.

Inferred mineral resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all, or any part, of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable.

Disclosure of contained ounces in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute reserves by SEC standards as in place tonnage and grade without reference to unit measures. Accordingly, information contained in this report and the documents incorporated by reference herein contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

The term mineralized material as used in this Quarterly Report on Form 10-Q, although permissible under SEC Industry Guide 7, does not indicate reserves by SEC Industry Guide 7 standards. We cannot be certain that any part of the mineralized material will ever be confirmed or converted into SEC Industry Guide 7 compliant reserves . Investors are cautioned not to assume that all or any part of the mineralized material will ever be confirmed or converted into reserves or that mineralized material can be economically or legally extracted.

**CAUTIONARY NOTE TO ALL INVESTORS CONCERNING ECONOMIC ASSESSMENTS THAT INCLUDE INFERRED RESOURCES**

The Company currently holds or has the right to acquire interests in an advanced stage exploration project in Alaska referred to as the Livengood Gold Project (the Livengood Gold Project or the Project ). Mineral resources that are not mineral reserves have no demonstrated economic viability. The preliminary assessments on the Project are preliminary in nature and include inferred mineral resources that have a great amount of uncertainty as to their existence, and are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. It cannot be assumed that all, or any part, of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies. There is no certainty that such inferred mineral resources at the Project will ever be realized. Investors are cautioned not

to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable.

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**FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements or information within the meaning of the United States Private Securities Litigation Reform Act of 1995 concerning anticipated results and developments in the operations of the Company in future periods, planned exploration activities, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as expects, anticipates, believes, intends, estimates, potential, possible and similar expressions, or statements that events, conditions or results will, may, could or should (or the negative and grammatical variations of any of these terms) occur or be achieved. These forward looking statements may include, but are not limited to, statements concerning:

- the Company's strategies and objectives, both generally and specifically in respect of the Livengood Gold Project;
- the potential for the expansion of the estimated resources at the Livengood Gold Project;
- the potential for a production decision concerning, and any production at, the Livengood Gold Project;
- the potential for cost savings due to the high gravity gold concentration component of some of the Livengood Gold Project mineralization;
- the sequence of decisions regarding the timing and costs of development programs with respect to, and the issuance of the necessary permits and authorizations required for, the Livengood Gold Project;
- the Company's estimates of the quality and quantity of the resources at the Livengood Gold Project;
- the timing and cost of the planned future exploration programs at the Livengood Gold Project, and the timing of the receipt of results therefrom;
- the Company's future cash requirements;

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- general business and economic conditions, including changes in the price of gold and the overall sentiment of the markets for public equity;
- the Company's ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations on acceptable terms, if at all;
- the ability of the Company to continue to refine the project economics for the Livengood Gold Project;
- the potential for opportunities to reduce capital costs for the Livengood Gold Project;
- the potential for opportunities to improve the economics of the Livengood Gold Project by reducing certain costs, including through the reduction of reagent consumption and energy costs, and improving recovery through intensive cyanide leach of gravity concentrates; and
- the potential for opportunities to improve the economics of the Livengood Gold Project by enhancing mill head grades through stockpile management strategies and/or additional test work to confirm drill assays of the resource.

Such forward-looking statements reflect the Company's current views with respect to future events and are subject to certain known and unknown risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others:

- the demand for, and level and volatility of the price of, gold;
  - general business and economic conditions;
  - government regulation and proposed legislation (and changes thereto or interpretations thereof);
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- defects in title to other claims, or the ability to obtain surface rights, either of which could affect our property rights and claims;
- the timing of the receipt of regulatory and governmental approvals, permits and authorizations necessary to implement and carry on the Company's planned exploration and potential development program at the Livengood Gold Project;
- conditions in the financial markets generally, the overall sentiment of the markets for public equity, interest rates and currency rates;
- the Company's ability to secure the necessary consulting, drilling and related services and supplies on favorable terms in connection with its drilling program at the Livengood Gold Project and other activities;
- the Company's ability to attract and retain key staff, particularly in connection with the permitting and development of any mine at the Livengood Gold Project;
- the accuracy of the Company's resource estimates (including with respect to size and grade) and the geological, operational and price assumptions on which these are based;
- the timing of the ability to commence and complete planned work programs at the Livengood Gold Project;
- the terms of the consents, permits and authorizations necessary to carry out planned exploration and development programs at the Livengood Gold Project and the Company's ability to comply with such terms on a safe and cost-effective basis;
- the ongoing relations of the Company with the lessors of its property interests and applicable regulatory agencies;
- the metallurgy and recovery characteristics of samples from certain of the Company's mineral properties and whether such characteristics are reflective of the deposit as a whole; and
- the continued development of and potential construction of any mine at the Livengood Gold Project property not requiring consents, approvals, authorizations or permits that are materially different from those identified by the Company.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including without limitation those discussed in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q, which are incorporated herein by reference, as well as other factors described elsewhere in this report and the Company's other reports filed with the SEC.

The Company's forward-looking statements contained in this Quarterly Report on Form 10-Q are based on the beliefs, expectations and opinions of management as of the date of this report. The Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

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(An Exploration Stage Company)

**CONDENSED CONSOLIDATED BALANCE SHEETS**

As at March 31, 2014 and December 31, 2013

(Expressed in US Dollars - Unaudited)

	Note	March 31, 2014	December 31, 2013
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 11,379,547	\$ 13,925,601
Marketable securities		52,925	55,002
Accounts receivable		32,562	11,589
Prepaid expenses		179,200	200,731
Total current assets		11,644,234	14,192,923
Restricted cash			30,477
Property and equipment		63,968	67,913
Capitalized acquisition costs	4	55,204,041	55,173,564
<b>Total assets</b>		<b>\$ 66,912,243</b>	<b>\$ 69,464,877</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable		\$ 309,669	\$ 42,469
Accrued liabilities		473,659	1,451,227
Total current liabilities		783,328	1,493,696
<b>Non-current liabilities</b>			
Derivative liability	6	16,300,000	14,800,000
Total liabilities		17,083,328	16,293,696
<b>Shareholders equity</b>			
Share capital, no par value; authorized 500,000,000 shares; 98,068,638 shares issued and outstanding at March 31, 2014 and December 31, 2013	7	236,401,096	236,401,096
Contributed surplus		32,772,446	32,153,864
Accumulated other comprehensive income		2,570,752	3,021,281

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Deficit accumulated during the exploration stage	(221,915,379)	(218,405,060)
Total shareholders' equity	49,828,915	53,171,181
Total liabilities and shareholders' equity	\$ 66,912,243	\$ 69,464,877

Nature and continuance of operations (note 1)

Commitments (note 9)

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

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(An Exploration Stage Company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Three Months Ended March 31, 2014 and 2013

(Expressed in US Dollars - Unaudited)

	Note	Three Months Ended		
		March 31, 2014	March 31, 2013	From Inception
<b>Operating expenses</b>				
Consulting fees		\$ (10,391)	\$ 639,003	\$ 14,958,244
Depreciation		3,945	5,463	269,576
Insurance		62,632	69,422	1,263,802
Investor relations		90,690	129,381	4,796,191
Mineral property exploration	4	615,162	2,794,435	152,833,206
Office		21,781	27,097	1,016,598
Other		9,117	16,354	1,796,150
Professional fees		146,396	184,027	3,716,291
Regulatory		34,255	100,122	1,113,972
Rent		49,456	60,010	1,126,921
Travel		39,551	93,062	1,430,618
Wages and benefits		1,248,655	1,876,964	46,522,926
Write-down of mineral properties				1,605,522
<b>Total operating expenses</b>		<b>(2,311,249)</b>	<b>(5,995,340)</b>	<b>(232,450,017)</b>
<b>Other income (expenses)</b>				
Gain (loss) on foreign exchange		284,129	397,829	1,524,055
Interest income		16,801	34,229	2,623,857
Income from mineral property earn-in				660,744
Impairment of available-for-sale securities				(298,769)
Spin-out cost				(775,249)
Unrealized gain/(loss) on derivative	6	(1,500,000)	1,500,000	6,800,000
<b>Total other income (expense)</b>		<b>(1,199,070)</b>	<b>1,932,058</b>	<b>10,534,638</b>
<b>Loss from continuing operations</b>		<b>(3,510,319)</b>	<b>(4,063,282)</b>	<b>(221,915,379)</b>
<b>Loss from discontinued operations</b>				<b>(19,630,113)</b>
<b>Net loss for the period</b>		<b>(3,510,319)</b>	<b>(4,063,282)</b>	<b>(241,545,492)</b>
<b>Other comprehensive income (loss)</b>				
Unrealized loss on marketable securities			(50,577)	(487,616)
Impairment of available-for-sale securities				298,769
Exchange difference on translating foreign operations		(450,529)	(504,149)	2,759,599
<b>Total other comprehensive income (loss) for the period</b>		<b>(450,529)</b>	<b>(554,726)</b>	<b>2,570,752</b>

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<b>Comprehensive loss for the period</b>	\$	(3,960,848)	\$	(4,618,008)	\$	(238,974,740)
<b>Basic and fully diluted loss per share</b>	\$	(0.04)	\$	(0.04)		
<b>Weighted average number of shares outstanding</b>		98,068,638		98,068,638		

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

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(An Exploration Stage Company)

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

For the Three Months Ended March 31, 2014 and 2013

(Expressed in US Dollars - Unaudited)

	<b>Number of shares</b>	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Accumulated other comprehensive income/(loss)</b>	<b>Deficit</b>	<b>Total</b>
Balance, December 31, 2012	98,068,638	\$ 236,401,096	\$ 28,589,591	\$ 4,101,968	\$ (208,552,580)	\$ 60,540,075
Stock based compensation			1,578,028			1,578,028
Unrealized loss on available-for-sale securities				(50,577)		(50,577)
Exchange difference on translating foreign operations				(504,149)		(504,149)
Net loss					(4,063,282)	(4,063,282)
Balance, March 31, 2013	98,068,638	236,401,096	30,167,619	3,547,242	(212,615,862)	57,500,095
Stock based compensation			1,986,245			1,986,245
Unrealized loss on available-for-sale securities				(68,340)		(68,340)
Impairment of available-for-sale-securities				298,769		298,769
Exchange difference on translating foreign operations				(756,390)		(756,390)
Net loss					(5,789,198)	(5,789,198)
Balance, December 31, 2013	98,068,638	236,401,096	32,153,864	3,021,281	(218,405,060)	53,171,181
Stock based compensation			618,582			618,582
Exchange difference on translating foreign operations				(450,529)		(450,529)
Net loss					(3,510,319)	(3,510,319)
Balance, March 31, 2014	98,068,638	\$ 236,401,096	\$ 32,772,446	\$ 2,570,752	\$ (221,915,379)	\$ 49,828,915

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

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(An Exploration Stage Company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2014 and 2013

(Expressed in US Dollars - Unaudited)

	<b>Three Months Ended</b>		
	<b>March 31, 2014</b>	<b>March 31, 2013</b>	<b>From Inception</b>
<b>Operating Activities</b>			
Loss for the period from continuing operations	\$ (3,510,319)	\$ (4,063,282)	\$ (221,915,379)
Add items not affecting cash:			
Depreciation	3,945	5,463	269,576
Stock based compensation	618,582	1,578,028	37,497,565
Unrealized (gain) loss on derivative liability	1,500,000	(1,500,000)	(6,800,000)
Spin-out recovery			(254,339)
Gain on foreign exchange			(254,512)
Impairment of available-for-sale securities			298,769
Write-down of advance to contractors			482,009
Write-down of mineral properties			1,605,522
Other			(285,323)
Changes in non-cash items:			
Accounts receivable	21,775	226,082	142,999
Prepaid expenses	17,436	110,346	(328,859)
Advance to contractors		68,000	413,082
Accounts payable and accrued liabilities	(706,105)	(1,369,439)	786,630
<b>Cash used in operating activities of continuing operations</b>	<b>(2,054,686)</b>	<b>(4,944,802)</b>	<b>(188,342,260)</b>
<b>Cash used in operating activities of discontinued operations</b>			<b>(12,786,324)</b>
<b>Financing Activities</b>			
Issuance of share capital			251,751,411
Share issuance costs			(7,643,229)
<b>Cash provided by financing activities of continuing operations</b>			<b>244,108,182</b>
<b>Cash used in financing activities of discontinued operations</b>			<b>(3,902,947)</b>
<b>Investing Activities</b>			
Proceeds from sale of available-for-sale-securities			172,734
Change in restricted cash	30,477		
Capitalized acquisition costs	(30,477)		(27,811,722)
Expenditures on property and equipment, net			(332,415)
<b>Cash used in investing activities of continuing operations</b>			<b>(27,971,403)</b>
<b>Cash used in investing activities of discontinued operations</b>			<b>(312,593)</b>
<b>Effect of foreign exchange on cash of continuing operations</b>	<b>(491,368)</b>	<b>(550,323)</b>	<b>1,121,768</b>
<b>Effect of foreign exchange on cash of discontinued operations</b>			<b>(534,876)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,546,054)</b>	<b>(5,495,125)</b>	<b>11,379,547</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>13,925,601</b>	<b>30,170,905</b>	
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 11,379,547</b>	<b>\$ 24,675,780</b>	<b>\$ 11,379,547</b>



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

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INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three Months Ended March 31, 2014 and 2013

(Expressed in US dollars Unaudited)

**1. GENERAL INFORMATION, NATURE AND CONTINUANCE OF OPERATIONS**

International Tower Hill Mines Ltd. ( ITH or the Company ) is incorporated under the laws of British Columbia, Canada. The Company's head office address is 2300-1177 West Hastings Street, Vancouver, British Columbia, Canada. International Tower Hill Mines Ltd. consists of ITH and its wholly owned subsidiaries Tower Hill Mines, Inc. ( TH Alaska ) (an Alaska corporation), Tower Hill Mines (US) LLC ( TH US ) (a Colorado limited liability company), Livengood Placers, Inc. ( LPI ) (a Nevada corporation), and 813034 Alberta Ltd. (an Alberta corporation). The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At March 31, 2014, the Company was in the exploration stage and controls a 100% interest in its Livengood Gold Project in Alaska, U.S.A.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral property interests. The recoverability of amounts shown for capitalized acquisition costs is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of capitalized acquisition costs. The success of the above initiatives cannot be assured. In the event that the Company is unable to obtain the necessary financing in the short-term, it may be necessary to defer certain discretionary expenditures and other planned activities.

**2. BASIS OF PRESENTATION**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 as filed in our Annual Report on Form 10-K. In the opinion of the Company's management these financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's financial position at March 31, 2014 and the results of its operations for the three months then ended. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The 2013 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP.

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The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. These judgments, estimates and assumptions are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. While management believes the estimates to be reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

### **Basis of consolidation**

These consolidated financial statements include the accounts of ITH and its wholly owned subsidiaries TH Alaska, TH US, LPI and 813034 Alberta Ltd. All intercompany transactions and balances have been eliminated.

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INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three Months Ended March 31, 2014 and 2013

(Expressed in US dollars Unaudited)

**3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the significance of the inputs used in making the measurement. The three levels of the fair value hierarchy are as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 Inputs that are not based on observable market data.

	Fair value as at March 31, 2014	
	Level 1	Level 2
Financial assets:		
Marketable securities	\$ 52,925	\$
Total	\$ 52,925	\$
Financial liabilities:		
Derivative liability (note 6)	\$	\$ 16,300,000
Total	\$	\$ 16,300,000

	Fair value as at December 31, 2013	
	Level 1	Level 2
Financial assets:		
Marketable securities	\$ 55,002	\$

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Total	\$	55,002	\$	
Financial liabilities:				
Derivative liability (note 6)	\$		\$	14,800,000
Total	\$		\$	14,800,000

**4. CAPITALIZED ACQUISITION COSTS**

The Company had the following activity related to capitalized acquisition costs:

Capitalized acquisition costs		Amount
<b>Balance, December 31, 2013</b>	\$	55,173,564
Acquisition costs		30,477
<b>Balance, March 31, 2014</b>	\$	55,204,041

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INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three Months Ended March 31, 2014 and 2013

(Expressed in US dollars Unaudited)

The following table presents costs incurred for exploration and evaluation activities for the three months ended March 31, 2014 and March 31, 2013:

	March 31, 2014	March 31, 2013
Exploration costs:		
Aircraft services	\$	\$ 4,760
Assay	600	9,724
Drilling	20,990	(28,714)
Environmental	363,474	830,584
Equipment rental	16,836	68,780
Field costs	69,103	283,500
Geological/geophysical	1,500	1,510,737
Land maintenance & tenure	36,330	15,050
Legal	86,716	78,869
Surveying and mapping	10,321	
Transportation and travel	9,292	21,145
Total expenditures for the period	\$ 615,162	\$ 2,794,435

**Livengood Gold Project Property**

The Livengood Gold Project property is located in the Tintina gold belt approximately 113 kilometers (70 miles) northwest of Fairbanks, Alaska. The property consists of land leased from the Alaska Mental Health Trust, a number of smaller private mineral leases, Alaska state mining claims purchased or located by the Company and patented ground held by the Company.

Details of the leases are as follows:

- a) a lease of the Alaska Mental Health Trust mineral rights having a term beginning July 1, 2004 and extending 19 years until June 30, 2023, subject to further extensions beyond June 30, 2023 by either commercial production or payment of an advance minimum royalty equal to 125% of the amount paid in year 19 and diligent pursuit of development. The lease requires minimum work expenditures and advance minimum royalties which escalate annually with inflation. A net smelter return ( NSR ) production royalty of between 2.5% and 5.0% (depending upon the price of gold) is payable to the lessor with respect to the lands subject to this lease. In addition, an NSR production royalty of 1% is payable to the lessor with respect to the unpatented federal mining claims subject to the lease described in b) below and an NSR

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production royalty of between 0.5% and 1.0% (depending upon the price of gold) is payable to the lessor with respect to the lands acquired by the Company as a result of the purchase of Livengood Placers, Inc. in December 2011. As of March 31, 2014 the Company has paid \$1,326,363 from the inception of this lease.

b) a lease of federal unpatented lode mining claims having an initial term of ten years commencing on April 21, 2003 and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of \$50,000 on or before each anniversary date (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of between 2% and 3% (depending on the price of gold) is payable to the lessors. The Company may purchase 1% of the royalty for \$1,000,000. As of March 31, 2014, the Company has paid \$480,000 from the inception of this lease.

c) a lease of patented lode claims having an initial term of ten years commencing January 18, 2007, and continuing for so long thereafter as advance minimum royalties are paid. The lease requires an advance minimum royalty of \$20,000 on or before each anniversary date through January 18, 2017 and \$25,000 on or before each subsequent anniversary (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of 3% is payable to the lessors. The Company may purchase all interests of the lessors in the leased property (including the production royalty) for \$1,000,000 (less all minimum and production royalties paid to the date of purchase), of which \$500,000

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is payable in cash over four years following the closing of the purchase and the balance of \$500,000 is payable by way of the 3% NSR production royalty. As of March 31, 2014, the Company has paid \$115,000 from the inception of this lease.

d) a lease of unpatented federal lode mining and federal unpatented placer claims having an initial term of ten years commencing on March 28, 2007, and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of \$15,000 on or before each anniversary date (all of which minimum royalties are recoverable from production royalties). The Company is required to pay the lessor the sum of \$250,000 upon making a positive production decision, payable \$125,000 within 120 days of the decision and \$125,000 within a year of the decision (all of which are recoverable from production royalties). An NSR production royalty of 2% is payable to the lessor. The Company may purchase all of the interest of the lessor in the leased property (including the production royalty) for \$1,000,000. As of March 31, 2014, the Company has paid \$83,000 from the inception of this lease.

**Title to mineral properties**

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps to verify title to mineral properties in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

**5. ACCRUED LIABILITIES**

The following table presents the accrued liabilities balances at March 31, 2014 and December 31, 2013.

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Accrued liabilities	\$ 226,367	\$ 540,486
Accrued severance	110,671	719,375
Accrued salaries and benefits	136,621	191,366



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Total accrued liabilities	\$	473,659	\$	1,451,227
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Accrued liabilities at March 31, 2014 include accruals for general corporate costs and project costs of \$84,885 and \$141,482, respectively. Accrued liabilities at December 31, 2013 include accruals for general corporate costs and project costs of \$115,020 and \$425,466, respectively.

### 6. DERIVATIVE LIABILITY

During 2011, the Company acquired certain mining claims and related rights in the vicinity of the Livengood Gold Project located near Fairbanks, Alaska. The aggregate consideration was \$13,500,000 in cash plus an additional contingent payment based on the five-year average daily gold price ( Average Gold Price ) from the date of the acquisition. The contingent payment will equal \$23,148 for every dollar that the Average Gold Price exceeds \$720 per troy ounce. If the Average Gold Price is less than \$720, there will be no additional contingent payment.

At initial recognition on December 13, 2011 the derivative liability was valued at \$23,100,000. The key assumption used in the valuation of the derivative is the estimate of the future Average Gold Price. The estimate of the future Average Gold Price was determined using a forward curve on future gold prices as published by the CME Group. The CME Group represents the merger of the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT), the New York Mercantile Exchange (NYMEX) and its commodity exchange division, Commodity Exchange, Inc. (COMEX). Using this forward curve, the Company estimated an Average Gold Price based on

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actual gold prices to March 31, 2014 and projected gold prices from March 31, 2014 to the end of the five year period in December 2016 of \$1,423 per ounce of gold.

The fair value of the derivative liability and the estimated Average Gold Price are as follows:

	<b>Total</b>	<b>Average Gold Price (\$/oz.)</b>
<b>Derivative value at December 31, 2013</b>	\$ 14,800,000	\$ 1,360
Unrealized loss for the period	1,500,000	
<b>Derivative value at March 31, 2014</b>	\$ 16,300,000	\$ 1,423

**7. SHARE CAPITAL**

**Authorized**

500,000,000 common shares without par value. At March 31, 2014 and December 31, 2013 there were 98,068,638 shares issued and outstanding.

**Share issuances**

There were no share issuances during the three months ended March 31, 2014.

**Stock options**

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The Company has adopted an incentive stock option plan (the 2006 Plan). The essential elements of the 2006 Plan provide that the aggregate number of common shares of the Company's capital stock that may be made issuable pursuant to options granted under the 2006 Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the 2006 Plan will have a maximum term of ten years. The exercise price of options granted under the 2006 Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under applicable stock exchange policies), or such other price as may be agreed to by the Company and accepted by the Toronto Stock Exchange. Options granted under the 2006 Plan vest immediately, unless otherwise determined by the directors at the date of grant.

During the three months ended March 31, 2014, the Company granted incentive stock options to certain officers, employees and consultants of the Company to purchase a total of 2,480,000 common shares in the capital stock of the Company. The options will vest as to one-third on the grant date, one-third on the first anniversary and one-third on the second anniversary. The following table presents the options granted by the Company during the three months ended March 31, 2014:

### Options Granted During the Three Months Ended March 31, 2014

Grant Date	Expiry Date	Number of Options	Exercise Price (C\$)
February 25, 2014	February 25, 2022	1,360,000	\$ 1.11
February 25, 2014	February 25, 2022	690,000	\$ 0.73
March 10, 2014	March 10, 2022	430,000	\$ 1.11

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A summary of the status of the stock option plan as of March 31, 2014, and December 31, 2013 and changes is presented below:

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Number of Options	Weighted Average Exercise Price (C\$)	Number of Options	Weighted Average Exercise Price (C\$)
Balance, beginning of the period	5,493,000	\$ 3.57	8,570,000	\$ 4.73
Granted	2,480,000	\$ 1.00	613,000	\$ 2.18
Expired		\$	(1,040,000)	\$ 7.78
Forfeited	(600,000)	\$ 3.17	(1,550,000)	\$ 3.27
Cancelled	(1,519,000)	\$ 2.97	(1,100,000)	\$ 8.27
Balance, end of the period	5,854,000	\$ 2.68	5,493,000	\$ 3.57

The weighted average remaining life of options outstanding at March 31, 2014 was 5.25 years.

Stock options outstanding are as follows:

Expiry Date	Exercise Price (C\$)	March 31, 2014		December 31, 2013		
		Number of Options	Exercisable	Number of Options	Exercisable	
August 23, 2016	\$ 8.07	600,000	600,000	600,000	600,000	
January 9, 2017	\$ 4.60	30,000	30,000	30,000	20,000	
August 24, 2017	\$ 3.17	2,275,000	1,516,658	3,350,000	2,233,322	
September 19, 2017				\$ 2.91	1,000,000	666,666
March 14, 2018	\$ 2.18	469,000	312,660	\$ 2.18	513,000	170,995
February 25, 2022	\$ 1.11	1,360,000	453,333			
February 25, 2022	\$ 0.73	690,000	230,000			
March 10, 2022	\$ 1.11	430,000	143,333			
		5,854,000	3,285,984		5,493,000	3,690,983

A summary of the non-vested options as of March 31, 2014 and changes during the three months ended March 31, 2014 is as follows:

<b>Non-vested options:</b>	<b>Number of options</b>	<b>Weighted average grant- date fair value (C\$)</b>
Outstanding at December 31, 2013	1,802,017	\$ 1.38
Granted	2,480,000	\$ 0.49
Forfeited	(200,001)	\$ 1.61
Vested	(1,514,000)	\$ 0.84
Outstanding at March 31, 2014	2,568,016	\$ 0.82

At March 31, 2014 there was unrecognized compensation expense of C\$1,042,160 related to non-vested options outstanding. The cost is expected to be recognized over a weighted-average remaining period of approximately 1.2 years.

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**Share-based payments**

During the three month period ended March 31, 2014, the Company granted 2,480,000 stock options with a fair value of C\$1,224,537, calculated using the Black-Scholes option pricing model. Share-based payment charges for the three months ended March 31, 2014 totaled \$618,582.

During the three month period ended March 31, 2013, the Company granted 613,000 stock options with a fair value of C\$304,585, calculated using the Black-Scholes option pricing model. Share-based payment charges for the three months ended March 31, 2013 totaled \$1,578,028.

The following weighted average assumptions were used for the Black-Scholes option pricing model calculations:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Expected life of options	6 years	4 years
Risk-free interest rate	1.83%	1.29%
Annualized volatility	81.02%	59.48%
Dividend rate	0.00%	0.00%
Exercise price (C\$)	\$ 1.00	\$ 2.18

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares.

**8. SEGMENT AND GEOGRAPHIC INFORMATION**

The Company operates in a single reportable segment, being the exploration and development of mineral properties. The following tables present selected financial information by geographic location:

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	Canada	United States	Total
<b>March 31, 2014</b>			
Capitalized acquisition costs	\$	\$ 55,204,041	\$ 55,204,041
Property and equipment	11,615	52,353	63,968
Current assets	10,768,470	875,764	11,644,234
Total assets	\$ 10,780,085	\$ 56,132,158	\$ 66,912,243
<b>December 31, 2013</b>			
Capitalized acquisition costs	\$	\$ 55,173,564	\$ 55,173,564
Restricted cash		30,477	30,477
Property and equipment	11,994	55,919	67,913
Current assets	13,289,752	903,171	14,192,923
Total assets	\$ 13,301,746	\$ 56,163,131	\$ 69,464,877

Three months ended	March 31, 2014	March 31, 2013
Net loss for the period - Canada	\$ (669,051)	\$ (1,656,129)
Net loss for the period - United States	(2,841,268)	(2,407,153)
Net loss for the period	\$ (3,510,319)	\$ (4,063,282)

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**9. COMMITMENTS**

The following table discloses, as of March 31, 2014, the Company's contractual obligations including anticipated mineral property payments and work commitments and committed office and equipment lease obligations. Under the terms of the Company's mineral property purchase agreements, mineral leases and the terms of the unpatented mineral claims held by it, the Company is required to make certain scheduled acquisition payments, incur certain levels of expenditures, make lease or advance royalty payments, make payments to government authorities and incur assessment work expenditures as summarized in the table below in order to maintain and preserve the Company's interests in the related mineral properties. If the Company is unable or unwilling to make any such payments or incur any such expenditures, it is likely that the Company would lose or forfeit its rights to acquire or hold the related mineral properties. The following table assumes that the Company retains the rights to all of its current mineral properties, but no other lease purchase or royalty buyout options:

	Payments Due by Year					2019 and beyond	Total
	2014	2015	2016	2017	2018		
Livengood Property Purchase(1)	\$	\$	\$ 16,300,000	\$	\$	\$	\$ 16,300,000
Mineral Property Leases(2)	366,236	405,979	410,794	415,681	425,641	430,676	2,455,007
Mining Claim Government Fees	89,110	89,110	89,110	89,110	89,110	89,110	534,660
Office and Equipment Lease Obligations	168,806	78,960	362	362	362	362	249,214
<b>Total</b>	<b>\$ 624,152</b>	<b>\$ 574,049</b>	<b>\$ 16,800,266</b>	<b>\$ 505,153</b>	<b>\$ 515,113</b>	<b>\$ 520,148</b>	<b>\$ 19,538,881</b>

(1) The amount payable in December 2016 of \$16,300,000 represents the fair value of the Company's derivative liability as at March 31, 2014 and will be revalued at each subsequent reporting period. See note 6.

(2) Does not include required work expenditures, as it is assumed that the required expenditure level is significantly below the work for which will actually be carried out by the Company. Does not include potential royalties that may be payable (other than annual minimum royalty payments). See note 4.



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013. All currency amounts are stated in US dollars unless noted otherwise.

**Current Business Activities**

**Livengood Gold Project**

During the three month ended March 31, 2014, and to the date of this MD&A, the Company has been investigating a number of opportunities, including those identified in the September 4, 2013 Feasibility Study (the Feasibility Study ) and those subsequently developed by the Company, for optimization and reducing project costs. The mine plan was reviewed and modified to include changing pit slope designs, improvement of scheduling ore release, waste mining and stockpile management. This revised mine plan will form the basis for future project economics as other opportunities are fully reviewed. The Company has also continued to advance environmental baseline work in support of future permitting in order to better position the Livengood Gold Project for a construction decision when warranted by market conditions.

In light of the decrease in the gold price in 2013 and its effect on the gold mining industry, the Company has prepared for the potential of a continuing lower gold price by limiting 2014 spending to essential activities. These activities include payment of annual land lease obligations, reviewing opportunities to improve the Feasibility Study released in 2013, continuing critical environmental baseline work to prevent any significant delays in future permitting, as well as performing required corporate and compliance matters. As part of the Company's efforts to reduce spending in 2014, the Company's full time staff was reduced by approximately 30% effective January 1, 2014.

The Company continues to seek a strategic alliance to help support the future development of the Project while considering all other appropriate financing options. The strength of the gold asset, the favorable location, and the proven team are the reasons the Company would potentially attract a strategic partner with a long term development horizon who understands the Project is highly leveraged to gold prices. To date ITH has signed multiple confidentiality agreements with large and intermediate mining companies and has been reviewing the 2013 Feasibility Study results as well as the various opportunities for optimization with those companies.

**Results of Operations**

**Summary of Quarterly Results**

Description	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
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Net loss	\$	(3,510,319)	\$	(1,022,387)	\$	(4,124,761)	\$	(642,050)
Basic and diluted net loss per common share	\$	(0.04)	\$	(0.01)	\$	(0.04)	\$	(0.01)

		March 31, 2013		December 31, 2012		September 30, 2012		June 30, 2012
Net loss	\$	(4,063,282)	\$	(7,258,397)	\$	(25,033,780)	\$	(12,909,320)
Basic and diluted net loss per common share	\$	(0.04)	\$	(0.07)	\$	(0.27)	\$	(0.15)

*Three Months Ended March 31, 2014 compared to Three Months Ended March 31, 2013*

The Company incurred a net loss of \$3,510,319 for the period ended March 31, 2014, compared to a net loss of \$4,063,282 for the period ended March 31, 2013. The following discussion highlights certain selected financial information and changes in operations between the three months ended March 31, 2014 and the three months ended March 31, 2013.

Mineral property expenditures decreased significantly to \$615,162 for the three months ended March 31, 2014 from \$2,794,435 for the three months ended March 31, 2013 primary due to the Company completing the Feasibility Study in 2013 and focusing on continuation of environmental baseline studies and reviewing Feasibility Study opportunities in 2014.

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Share-based payment charges were \$618,582 during the three months ended March 31, 2014 compared to \$1,578,028 during the three months ended March 31, 2013. The decrease in share-based payment charges during the period was mainly the result of a reduction in the fair value of options granted during the period and vesting of prior period grants along with certain forfeitures of options during 2014. The Company granted 2,480,000 options during the three months ended March 31, 2014 compared to 613,000 during the three months ended March 31, 2013.

Share-based payment charges

Share-based payment charges for the three month periods ended March 31, 2014 and 2013 were allocated as follows:

Expense category:	March 31, 2014		March 31, 2013	
Consulting	\$	(64,083)	\$	544,430
Investor relations		41,398		43,825
Wages and benefits		641,267		989,773
	\$	618,582	\$	1,578,028

Share-based payments to consultants decreased from \$544,430 to a credit of \$64,083 as a result of forfeitures of previously granted stock options to consultants. Excluding share-based payment charges of \$641,267 and \$989,773 respectively, wages and benefits for the period decreased to \$607,388 during the three months ended March 31, 2014 from \$887,191 during the three months ended March 31, 2013 as a result of decreased personnel during the period. As part of its reduced spending plan, the Company decreased its full-time staff by approximately 30% effective January 1, 2014.

All other expense categories reflected moderate decreases period over period reflecting the Company's efforts to reduce spending.

Other items amounted to a loss of \$1,199,070 during the three month period ended March 31, 2014 compared to a gain of \$1,932,058 during the three month period ended March 31, 2013. The loss in the current period resulted mainly from an unrealized loss of \$1.5 million on the revaluation of the derivative liability at March 31, 2014 resulting from an increase in the historical and estimated future average price of gold, compared to an unrealized gain of \$1.5 million on the revaluation of the derivative liability during the prior period which resulted from a decrease in the average price of gold. Offsetting the unrealized loss on the derivative liability, the Company had foreign exchange gain of \$284,129 during the three month period ended March 31, 2014 compared to a gain of \$397,829 during the three month period ended March 31, 2013. The average exchange rate during the three month period ended March 31, 2014 was C\$1 to US\$0.906 compared to C\$1 to US\$0.992 for the three month period ended March 31, 2013.

**Liquidity and Capital Resources**

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed through sale of its equity securities by way of private placements and the subsequent exercise of share purchase and broker warrants and options issued in connection with such private placements. However, the exercise of warrants/options is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such

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warrants/options (over which the Company has no control) and therefore there can be no guarantee that any existing warrants/options will be exercised.

As at March 31, 2014, the Company reported cash and cash equivalents of \$11,379,547 compared to \$13,925,601 at December 31, 2013. The decrease of approximately \$2.5 million resulted from corporate expenditures and expenditures on the Livengood Gold Project for continuation of environmental baseline activities and review of project opportunities of \$1.4 million, payment of severance liabilities of \$0.6 million, and the effect of foreign exchange on cash of \$0.5 million. The Company continues to utilize its cash resources to fund the Livengood Gold Project environmental activities required for preservation of baseline database and future permitting, Feasibility Study recommendations, including related mine planning and other project improvements, as well as corporate administrative requirements.

Investing activities during the three months ended March 31, 2014 comprised solely the change in restricted cash and capitalized acquisition costs related to land acquisitions closed in January 2014. The Company had no investing activities during the three months ended March 31, 2013.

The Company had no cash flows from financing activities during the three month periods ended March 31, 2014 and 2013.

As at March 31, 2014, the Company had working capital of \$10,860,906 compared to working capital of \$12,699,227 at December 31, 2013. The Company expects that it will operate at a loss for the foreseeable future, but believes the current

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cash and cash equivalents will be sufficient for it to complete the non-discretionary activities at the Livengood Gold Project and its currently anticipated general and administrative costs, through the 2014 fiscal year and well into 2015. To advance the Livengood Gold Project towards permitting and development, the Company anticipates maintaining certain essential development activities for the current fiscal year ending December 31, 2014. These essential activities include maintaining environmental baseline data that in its absence could materially delay future permitting of the Livengood Gold Project. The Company anticipates spending approximately \$8 million during fiscal year 2014 to maintain the environmental baseline activity, review opportunities, including those identified in the Feasibility Study and those subsequently developed by the Company, as well as perform required general and administrative duties. As at March 31, 2014 the Company has spent approximately \$1.4 million on the aforementioned activities. As part of the Company's reduced spending plan, ITH reduced its full-time staff by approximately 30% effective January 1, 2014.

The Company will require significant additional financing to continue its operations (including general and administrative expenses) in connection with post-Feasibility Study activities at the Livengood Gold Project and the development of any mine that may be determined to be built at the Livengood Gold Project, and there is no assurance that the Company will be able to obtain the additional financing required on acceptable terms, if at all. In addition, any significant delays in the issuance of required permits for the ongoing work at the Livengood Gold Project, or unexpected results in connection with the ongoing work, could result in the Company being required to raise additional funds to advance permitting efforts. The Company's review of its financing options includes pursuing a future strategic alliance to assist in further development, permitting and future construction costs.

Despite the Company's success to date in raising significant equity financing to fund its operations, there is significant uncertainty that the Company will be able to secure any additional financing in the current or future equity markets. See Risk Factors. We will require additional financing to fund exploration and, if warranted, development and production. Failure to obtain additional financing could have a material adverse effect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern. The quantity of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes. Due to this uncertainty, if the Company is unable to secure additional financing, it may be required to reduce all discretionary activities at Livengood to preserve its working capital to fund anticipated non-discretionary expenditures beyond the 2014 fiscal year.

Other than cash held by its subsidiaries for their immediate operating needs in Alaska and Colorado, all of the Company's cash reserves are on deposit with a major Canadian chartered bank. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

Table of Contents**Contractual Obligations**

The following table discloses, as of March 31, 2014, the Company's contractual obligations including anticipated mineral property payments and work commitments and committed office and equipment lease obligations. Under the terms of the Company's mineral property purchase agreements, mineral leases and the terms of the unpatented mineral claims held by it, the Company is required to make certain scheduled acquisition payments, incur certain levels of expenditures, make lease or advance royalty payments, make payments to government authorities and incur assessment work expenditures as summarized in the table below in order to maintain and preserve the Company's interests in the related mineral properties. If the Company is unable or unwilling to make any such payments or incur any such expenditures, it is likely that the Company would lose or forfeit its rights to acquire or hold the related mineral properties. The following table assumes that the Company retains the rights to all of its current mineral properties, but no other lease purchase or royalty buyout options:

	Payments Due by Year						Total
	2014	2015	2016	2017	2018	2019 and beyond	
Livengood Property Purchase(1)	\$	\$	\$ 16,300,000	\$	\$	\$	\$ 16,300,000
Mineral Property Leases(2)	366,236	405,979	410,794	415,681	425,641	430,676	2,455,007
Mining Claim Government Fees	89,110	89,110	89,110	89,110	89,110	89,110	534,660
Office and Equipment Lease Obligations	168,806	78,960	362	362	362	362	249,214
<b>Total</b>	<b>\$ 624,152</b>	<b>\$ 574,049</b>	<b>\$ 16,800,266</b>	<b>\$ 505,153</b>	<b>\$ 515,113</b>	<b>\$ 520,148</b>	<b>\$ 19,538,881</b>

(1) The amount payable in December 2016 of \$16,300,000 represents the fair value of the Company's derivative liability as at March 31, 2014 and will be revalued at each subsequent reporting period.

(2) Does not include required work expenditures, as it is assumed that the required expenditure level is significantly below the work for which will actually be carried out by the Company. Does not include potential royalties that may be payable (other than annual minimum royalty payments).

**Off-Balance Sheet Arrangements**

The Company does not have any off balance sheet arrangements.

**Environmental Regulations**

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application

of technically proven and economically feasible measures.

**Certain U.S. Federal Income Tax Considerations for U.S. Holders**

The Company has been a passive foreign investment company ( PFIC ) for U.S. federal income tax purposes in recent years and expects to continue to be a PFIC in the future. Current and prospective U.S. shareholders should consult their tax advisors as to the tax consequences of PFIC classification and the U.S. federal tax treatment of PFICs. Additional information on this matter is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, under Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Certain U.S. Federal Income Tax Considerations for U.S. Holders.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company has exposure to market risk in areas of interest rate risk, foreign currency exchange rate risk, and other price risk.

***Interest Rate Risk***

Interest rate risk consists of the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash and cash equivalents consists of cash and cash equivalents held in bank accounts and short term deposit certificates or Guaranteed Investment Certificates with a major Canadian financial institution that earn interest at variable interest rates. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

At March 31, 2014, the Company held a total of \$9,996,098 in cash equivalents which consist of interest saving accounts and Guaranteed Investment Certificates.

The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. The Company's sensitivity analysis suggests that a 0.5% change in interest rates would affect interest income by approximately \$20,000.

***Foreign Currency Risk***

The Company is exposed to foreign currency risk to the extent that certain monetary financial instruments and other assets are denominated in Canadian dollars. As the majority of the Company's assets, aside from cash, are denominated in US dollars, currency risk is limited to those Canadian cash balances. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company's sensitivity analysis suggests that a consistent 7.5% change in the absolute rate of exchange for the Canadian dollar would affect net assets by approximately \$340,000. Furthermore, depending on the amount of cash held by the Company in Canadian dollars at the end of each reporting period using the period end exchange rate, significant changes in the exchange rates could cause significant changes to the currency translation amounts recorded to accumulated other comprehensive income.

As at March 31, 2014, USD amounts were converted at a rate of C\$1 to US \$0.9047.



***Credit Risk***

Concentration of credit risk exists with respect to the Company's Canadian cash and cash equivalents as all amounts are held at a major Canadian financial institution. Credit risk with regard to cash held in the United States is mitigated as the amount held in the United States is only sufficient to cover short-term requirements. With respect to receivables at March 31, 2014, the Company is not exposed to significant credit risk as the receivables are principally interest accruals.

***Other Price Risk***

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company's investments in marketable securities are exposed to such risk. The Company's derivative liability, which consists of a future contingent payment valued using historic and estimated future gold prices, is also exposed to other price risk. See Note 6 of the notes to the unaudited condensed consolidated interim financial statements included elsewhere in this Quarterly Report on Form 10-Q. The fair value of this liability will fluctuate with the average daily price of gold as well as with future projections for the average price of gold over the life of the obligation. For every dollar change in the average daily price of gold, the value of the derivative liability will change by \$23,148.

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**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of March 31, 2014, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer (the principal executive officer) and Chief Financial Officer (the principal financial officer and accounting officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2014, the Company's disclosure controls and procedures were effective in ensuring that: (i) information required to be disclosed in reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, in a manner that allows for timely decisions regarding required disclosures.

The effectiveness of our or any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable assurance that the objectives of the system will be met and is subject to certain limitations, including the exercise of judgement in designing, implementing and evaluating controls and procedures and the assumptions used in identifying the likelihood of future events.

**Changes in Internal Control over Financial Reporting**

There were no changes in internal control over financial reporting during the quarter ended March 31, 2014 that have materially, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Not applicable.

**ITEM 1A. RISK FACTORS**

*You should carefully consider the following risk factors in addition to the other information included in this Quarterly Report on Form 10-Q as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common shares. The risks described below are not the only ones facing the Company. Additional risks that we are not presently aware of, or that we currently believe are immaterial, may also adversely affect our business, operating results and financial condition. We cannot assure you that we will successfully address these risks or other unknown risks exist that may affect our business.*

**Risks Related to Our Business**

*Our success depends on the development and operation of the Livengood Gold Project, which is our only project and which, as contemplated in the September 4, 2013 Feasibility Study, is not commercially viable at current gold prices.*

Our only property at this time is our Livengood Gold Project, which is in the exploration stage. We have issued a Feasibility Study on the Livengood Gold Project which indicates that the Project generates a minimal positive return at a gold price of \$1,500 per ounce. The price of gold is \$1,281 per ounce as of May 2, 2014, and the Project as contemplated in the Feasibility Study is not commercially viable at current gold prices. While management is exploring opportunities identified in the Feasibility Study, as well as those developed by the Company subsequent to the Feasibility Study, for optimization and reducing Project costs, there can be no assurance that any such efforts will be successful or that the price of gold will increase sufficiently to warrant a decision to develop the Project. For other risks related to the Project, please see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under Livengood Gold Project Feasibility Study Results - Project Execution Risks in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. If the Project is not developed, or if the Project is otherwise subject to deterioration, destruction or significant delay, we may never generate revenues and our shareholders may lose most or all of their investment in our common shares.

*We have a history of losses and expect to continue to incur losses in the future.*

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We have incurred losses and have had no revenue from operations since inception, and we expect to continue to incur losses in the future. We have not commenced commercial production on the Livengood Gold Project and we have no other mineral properties. We have no revenues from operations, and we anticipate we will have no operating revenues and will continue to incur operating losses until such time as we place the Livengood Gold Project into production and such project generates sufficient revenues to fund continuing operations. The Livengood Gold Project is currently in the exploration stage. The Project, as contemplated in the Feasibility Study, is not commercially viable at current gold prices. Our activities may not result in profitable mining operations and we may not succeed in establishing mining operations or profitably producing metals at the Livengood Gold Project.

*We are an exploration stage company and have no history producing metals from our properties. Any future revenues and profits are uncertain.*

We have no history of mining or refining any mineral products or metals and the Livengood Gold Project is not currently producing. There can be no assurance that the Livengood Gold Project will be successfully placed into production, produce minerals in commercial quantities or otherwise generate operating earnings. Advancing properties from the exploration stage into development and commercial production requires significant capital and time and will be subject to further feasibility studies, permitting requirements and construction of the mine, processing plants, roads and related works and infrastructure. We will continue to incur losses until our mining activities successfully reach commercial production levels and generate sufficient revenue to fund continuing operations. There is no certainty that we will produce revenue from any source, operate profitably or provide a return on investment in the future. If we are unable to generate revenues or profits, our shareholders might not be able to realize returns on their investment in our common shares.

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***We will require additional financing to fund exploration and, if warranted, development and production. Failure to obtain additional financing could have a material adverse effect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern.***

Advancing properties from exploration into the development stage requires significant capital and time, and successful commercial production from a property, if any, will be subject to completing feasibility studies, permitting and construction of the mine, processing plants, roads, and other related works and infrastructure. The Company does not presently have sufficient financial resources or a source of operating cash flow to undertake by itself to complete the permitting process and, if a production decision is made, the construction of a mine at the Livengood Gold Project. The completion of the permitting process, and any construction of a mine at the Livengood Gold Project following the making of a production decision, will therefore depend upon the Company's ability to obtain financing through the sale of its equity securities, enter into a joint venture relationship, secure significant debt financing or find alternative means of financing. There is no assurance that the Company will be successful in obtaining the required financing on favorable terms or at all. Even if the results of exploration are encouraging, the Company may not be able to obtain sufficient financing to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists.

Our ability to obtain additional financing in the future will depend upon a number of factors, including prevailing capital market conditions, the status of the national and worldwide economy, our business performance and the price of gold and other precious metals. Capital markets worldwide have been adversely affected in recent years by substantial losses by financial institutions. Failure to obtain such additional financing on favorable terms or at all could result in delay or indefinite postponement of further mining operations or exploration and development and the possible partial or total loss of our interests in the Livengood Gold Project.

***We have not yet identified, and may never identify, commercially viable reserves that would generate revenues.***

We are considered an exploration stage company and will continue to be until we identify commercially viable reserves on our properties and develop our properties. We have no producing properties and have never generated any revenue from our operations. We have issued a Feasibility Study on the Livengood Gold Project. Using the trailing three year gold price of \$1,500 per ounce, the Project generates a minimal positive return; however, the Project is not commercially viable at current gold prices. The majority of exploration projects do not result in the discovery of commercially mineable deposits of ore. Further exploration and substantial expenditures are required to establish ore reserves through drilling and metallurgical and other testing techniques, determine metal content and metallurgical recovery processes to extract metal from the ore, and construct, renovate or expand mining and processing facilities. No assurance can be given that any level of recovery of ore reserves will be realized or that any identified mineral deposit will ever qualify as a commercial mineable ore body which can be legally and economically exploited. If we are not able to identify commercially viable mineral deposits or profitably extract minerals from such deposits, our business would be materially adversely affected and our shareholders could lose all or a substantial portion of their investment.

***Resource exploration is a highly speculative business, and certain inherent exploration risks could have a negative effect on our business.***

Our long-term success depends on our ability to identify mineral deposits on the Livengood Gold Project and other properties we may acquire, if any, that can then be developed into commercially viable mining operations. Resource exploration is a highly speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting both from the failure to discover mineral deposits and from finding mineral deposits which, though present, are insufficient in size and grade at the then prevailing market conditions to return a profit from

production. Substantial expenditures are required to establish proven and probable mineral reserves through drilling and analysis, to develop metallurgical processes to extract metal, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The marketability of minerals which may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company and cannot be accurately predicted. These factors include market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

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***Mineral resource estimates are based on interpretation and assumptions and could be inaccurate or yield less mineral production under actual conditions than is currently estimated. Any material changes in these estimates will affect the economic viability of placing a property into production.***

The mineral resource estimates included in our reports are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The estimating of mineral resources and mineral reserves is a subjective process and the accuracy of mineral resource and mineral reserve estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting available engineering and geological information. There is significant uncertainty in any mineral resource or mineral reserve estimate and the actual deposits encountered and the economic viability of a deposit may differ materially from the Company's estimates. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Because we have not commenced actual production, mineralization estimates, including mineral resource estimates, for the Livengood Gold Project may require adjustments or downward revisions.

Until ore is actually mined and processed, mineral resources, mineral reserves and grades of mineralization must be considered as estimates only. The grade of ore ultimately mined, if any, may differ from that indicated by any pre-feasibility or definitive feasibility studies and drill results. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Extended declines in market prices for gold may render portions or all of our mineral resources uneconomic and result in reduced reported mineralization or adversely affect the commercial viability determinations reached by us. Material changes in estimates of mineralization, grades, stripping ratios, recovery rates or of our ability to extract such mineralization may affect the economic viability of projects and the value of our Livengood Gold Project. The estimated resources described in our reports should not be interpreted as assurances of mine life or of the profitability of future operations. Estimated mineral resources and mineral reserves may have to be re-estimated based on changes in applicable commodity prices, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence mineral resource or mineral reserve estimates. Market price fluctuations for gold, silver or base metals, increased production costs or reduced recovery rates or other factors may render any particular reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated reserves could require material write downs in investment in the affected mining property and increased amortization, reclamation and closure charges. Mineral resources are not mineral reserves and there is no assurance that any mineral resources will ultimately be reclassified as proven or probable reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.

***There are differences in U.S. and Canadian practices for reporting reserves and resources.***

Our reserve and resource estimates are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred mineral resources (and in certain circumstances, deposits that are not measured, indicated or inferred mineral resources but that are targeted for further exploration), which are generally not permitted in disclosure filed with the SEC by U.S. issuers. In the United States, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. U.S. investors are cautioned not to assume that all or any part of measured, indicated or inferred mineral resources will ever be converted into reserves.

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Further, inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of contained ounces is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report resources as in place tonnage and grade without reference to unit measures.

Accordingly, information concerning descriptions of mineralization, reserves and resources contained in our reports may not be comparable to information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC.



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***Increased costs could affect our ability to bring our projects into production and, once in production, our financial condition and ability to be profitable.***

Management anticipates that costs at the Livengood Gold Project will frequently be subject to variation from one year to the next due to a number of factors, such as changing ore grade, metallurgy and revisions to mine plans, if any, in response to the physical shape and location of the ore body. In addition, costs are affected by the price of commodities such as fuel, rubber and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production less profitable or not profitable at all. A material increase in costs could also impact our ability to maintain operations and have a significant effect on the Company's profitability.

***The volatility of the price of gold could adversely affect our future operations and, if warranted, our ability to develop our properties.***

Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced, if any. The Company's long-term viability and profitability, the value of the Company's properties, the market price of its common shares and the Company's ability to raise funding to conduct continued exploration and development, if warranted, depend, in large part, upon the market price of gold. The decision to put a mine into production and to commit the funds necessary for that purpose must be made long before the first revenue from production would be received. A decrease in the price of gold may prevent the Company's property from being economically mined or result in the write-off of assets whose value is impaired as a result of lower gold prices.

The price of gold has experienced significant movement over short periods of time, and is affected by numerous factors beyond the control of the Company, including economic and political conditions, expectations of inflation, currency exchange fluctuations, interest rates, global or regional demand, sale or purchase of gold by various central banks and financial institutions, speculative activities and increased production due to improved mining and production methods. The volatility of mineral prices represents a substantial risk which no amount of planning or technical expertise can fully eliminate. There can be no assurance that the price of gold will be such that any such deposits can be mined at a profit.

The volatility in gold prices is illustrated by the following table, which presents the high, low and average fixed price in U.S. dollars for an ounce of gold, based on the London Bullion Market Association P.M. fix, over the past five years:

		High		Low		Average
2009	\$	1,213	\$	810	\$	972
2010	\$	1,421	\$	1,058	\$	1,225
2011	\$	1,895	\$	1,319	\$	1,572
2012	\$	1,792	\$	1,540	\$	1,669
2013	\$	1,694	\$	1,192	\$	1,410
January 1, 2014 to May 2, 2014	\$	1,385	\$	1,221	\$	1,294

***Our results of operations could be affected by currency fluctuations.***

The Livengood Gold Project is located in the United States, with most costs associated with the Project paid in US dollars, and the Company maintains its accounts in Canadian and US dollars, making it subject to foreign currency fluctuations. There can be significant swings in the exchange rate between the US and Canadian dollar. There are no plans at this time to hedge against any exchange rate fluctuations in currencies. Adverse foreign currency fluctuations may cause losses and materially affect the Company's financial position and results.

*Resource exploration, development and production involve a high degree of risk and we do not maintain insurance with respect to certain of these risks, which exposes us to significant risk of loss.*

Resource exploration, development and production involve a high degree of risk. Our operations are, and any future development or mining operations we may conduct will be, subject to all of the operating hazards and risks normally incident to exploring for and development of mineral properties, such as, but not limited to:

- economically insufficient mineralized material;
- fluctuation in exploration, development and production costs;
- labor disputes;
- unanticipated variations in grade and other geologic problems;

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- water conditions;
  
- difficult surface or underground conditions;
  
- mechanical and equipment failure;
  
- failure of pit walls or dams;
  
- environmental hazards;
  
- industrial accidents;
  
- metallurgical and other processing problems;
  
- unusual or unexpected rock formations;
  
- personal injury, cave-ins, landslides, flooding, fire, explosions, and rock-bursts;
  
- metal losses;
  
- power outages;
  
- periodic interruptions due to inclement or hazardous weather conditions; and

- decrease in the value of mineralized material due to lower gold prices.

These risks could result in damage to, or destruction of, mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. Although the Company maintains or can be expected to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that the Company will be able to obtain insurance to cover all of these risks at economically feasible premiums or at all. The Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities, if warranted. Should events such as these that are not covered by insurance arise, they could reduce or eliminate our assets and shareholder equity as well as result in increased costs and a decline in the value of our assets or common shares.

***We may not be able to obtain all required permits and licenses to place any of our properties into production.***

The current and future operations of the Company require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Costs related to applying for and obtaining permits and licenses may be prohibitive and could delay our planned exploration and development activities. Failure to comply with permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Delays in obtaining, or a failure to obtain, any such licenses and permits, or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could delay or prevent production of the Livengood Gold Project and have a material adverse effect on the Company.

***Title to the Livengood Gold Project may be subject to defects in title or other claims, which could affect our property rights and claims.***

There are risks that title to the Livengood Gold Project may be challenged or impugned. The Livengood Gold Project is located in the State of Alaska and may be subject to prior unrecorded agreements or transfers or native land claims, and title may be affected by undetected defects. There may be valid challenges to the title of the Livengood Gold Project which, if successful, could impair development or operations. This is particularly the case in respect of those portions of our properties in which we hold our interest solely through a lease with the claim holders, as such interest is substantially based on contract and has been subject to a number of assignments (as opposed to a direct interest in the property).

Some of the mining claims at the Livengood Gold Project are U.S. federal or Alaska state unpatented mining claims. There is a risk that a portion of such unpatented mining claims could be determined to be invalid, in which case the Company could lose the right to mine any minerals contained within those mining claims. Unpatented mining claims are created and maintained in accordance with the applicable U.S. federal and Alaska state mining laws. Unpatented mining claims are unique property interests and are generally considered to be subject to greater title risk than other real property interests due to the validity of unpatented mining claims often being uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations under the provisions of the U.S. *General Mining Law of 1872* (the Mining Law). Unpatented

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mining claims are always subject to possible challenges of third parties or validity contests by the United States federal government or the Alaska state government, as applicable. The validity of an unpatented mining claim, in terms of both its location and its maintenance, is dependent on strict compliance with a complex body of federal and state statutory and decisional law. Title to the unpatented mining claims may also be affected by undetected defects such as unregistered agreements or transfers and there are few public records that definitively determine the issues of validity and ownership of unpatented mining claims. The Company has not obtained full title opinions for the majority of its mineral properties. Not all the mineral properties in which the Company has an interest have been surveyed, and their actual extent and location may be in doubt. Should the federal government impose a royalty or additional tax burdens on the properties that lie within public lands, the resulting mining operations could be seriously impacted, depending upon the type and amount of the burden.

The leases and agreements pursuant to which the Company has interests, or the right to acquire interests, in a significant portion of the Livengood Gold Project provide that the Company must make a series of cash payments over certain time periods or expend certain minimum amounts on the exploration of the properties. Failure by the Company to make such payments or make such expenditures in a timely fashion may result in the Company losing its interest in such properties. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain all of its property agreements in good standing, or to be able to comply with all of its obligations thereunder, which could result in the Company forfeiting its interest in one or more of its mineral properties.

***The Company may not have and may not be able to obtain surface or access rights to all or a portion of the Livengood Gold Project.***

Although the Company acquires the rights to some or all of the minerals in the ground subject to the mineral tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights through the courts can be costly and time consuming. It is necessary to negotiate surface access or to purchase the surface rights if long-term access is required. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate satisfactory agreements with any such existing landowners/occupiers for such access or purchase such surface rights, and therefore it may be unable to carry out planned exploration or mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction the outcomes of which cannot be predicted with any certainty. The inability of the Company to secure surface access or purchase required surface rights could materially and adversely affect the timing, cost or overall ability of the Company to develop any mineral deposits it may locate.

***Our properties and operations may be subject to litigation or other claims.***

From time to time our properties or operations may be subject to disputes which may result in litigation or other legal claims. We may be required to assert or defend against these claims which will divert resources and management time from operations. The costs of these claims or adverse filings may have a material effect on our business and results of operations.

***We are subject to significant governmental regulations which affect our operations and costs of conducting our business.***

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Any exploration activities carried on by the Company are, and any future development or mining operations we may conduct will be, subject to extensive laws and regulations governing various matters, including:

- mineral concession acquisition, exploration, development, mining and production;
- management of natural resources;
- exports, price controls, taxes and fees;
- labor standards on occupational health and safety, including mine safety;
- post-closure reclamation;
- environmental standards, waste disposal, toxic substances, explosives, land use and environmental protection; and
- dealings with indigenous peoples and historic and cultural preservation.

Companies engaged in exploration activities often experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Failure to comply with applicable laws, regulations and permits may result in civil or criminal fines or penalties, enforcement actions thereunder, including the

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forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions, any of which could result in the Company incurring significant expenditures. The Company may also be required to compensate third parties suffering loss or damage as a result of our mineral exploration activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

It is also possible that future laws and regulations could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the exploration and development of the Company's property.

***Legislation has been proposed that would significantly affect the mining industry and our business.***

In recent years, members of the United States Congress have repeatedly introduced bills which would supplant or alter the provisions of the Mining Law. If adopted, such legislation, among other things, could eliminate or greatly limit the right to a mineral patent, impose federal royalties on mineral production from unpatented mining claims located on United States federal lands (which includes certain of the mining claims at the Livengood Gold Project), result in the denial of permits to mine after the expenditure of significant funds for exploration and development, reduce estimates of mineral reserves and reduce the amount of future exploration and development activity on U.S. federal lands, all of which could have a material and adverse effect on the Company's ability to operate and its cash flow, results of operations and financial condition.

***Our activities are subject to environmental laws and regulations that may increase our costs of doing business and restrict our operations.***

The activities of the Company are subject to environmental regulations in the jurisdictions in which we operate. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner involving 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. Compliance with environmental laws and regulations and future changes in these laws and regulations may require significant capital outlays, cause material changes or delays in our current and planned operations and future activities and reduce the profitability of operations. It is possible that future changes in these laws or regulations could have a significant adverse impact on our Livengood Gold Project or some portion of our business, causing us to re-evaluate those activities at that time.

Examples of current U.S. federal laws which may affect our current operations and may impact future business and operations include, but are not limited to, the following:

The Comprehensive Environmental, Response, Compensation, and Liability Act ( CERCLA ), and comparable state statutes, impose strict, joint and several liability on current and former owners and operators of sites and on persons who disposed of or arranged for the disposal of hazardous substances found at such sites. It is not uncommon for the government to file claims requiring cleanup actions, demands for

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reimbursement for government-incurred cleanup costs, or natural resource damages, or for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act ( RCRA ), and comparable state statutes, govern the disposal of solid waste and hazardous waste and authorize the imposition of substantial fines and penalties for noncompliance, as well as requirements for corrective actions. CERCLA, RCRA and comparable state statutes can impose liability for clean-up of sites and disposal of substances found on exploration, mining and processing sites long after activities on such sites have been completed.

The Clean Air Act ( CAA ) restricts the emission of air pollutants from many sources, including mining and processing activities. Our mining operations may produce air emissions, including fugitive dust and other air pollutants from stationary equipment, storage facilities and the use of mobile sources such as trucks and heavy construction equipment, which are subject to review, monitoring or control requirements under the CAA and state air quality laws. New facilities may be required to obtain permits before work can begin, and existing facilities may be required to incur capital costs in order to remain in compliance. In addition, permitting rules may impose limitations on our production levels or result in additional capital expenditures in order to comply with the regulations.

The National Environmental Policy Act ( NEPA ) requires federal agencies to integrate environmental considerations into their decision-making processes by evaluating the environmental impacts of their proposed actions, including issuance of permits to mining facilities, and assessing alternatives to those actions. If a proposed action could significantly affect the



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environment, the agency must prepare a detailed statement known as an Environmental Impact Statement ( EIS ). The U.S. Environmental Protection Agency ( EPA ), other federal agencies, and any interested third parties will review and comment on the scoping of the EIS and the adequacy of and findings set forth in the draft and final EIS. We are required to undertake the NEPA process for the Livengood Gold Project permitting. The NEPA process can cause delays in issuance of required permits or result in changes to a project to mitigate its potential environmental impacts, which can in turn impact the economic feasibility of a proposed project or the ability to construct or operate the Livengood Gold Project or other properties entirely.

The Clean Water Act ( CWA ), and comparable state statutes, impose restrictions and controls on the discharge of pollutants into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. The CWA regulates storm water mining facilities and requires a storm water discharge permit for certain activities. Such a permit requires the regulated facility to monitor and sample storm water run-off from its operations. The CWA and regulations implemented thereunder also prohibit discharges of dredged and fill material in wetlands and other waters of the United States unless authorized by an appropriately issued permit. The CWA and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges of pollutants and impose liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release.

The Safe Drinking Water Act ( SDWA ) and the Underground Injection Control ( UIC ) program promulgated thereunder, regulate the drilling and operation of subsurface injection wells. The EPA directly administers the UIC program in some states and in others the responsibility for the program has been delegated to the state. The program requires that a permit be obtained before drilling a disposal or injection well. Violation of these regulations or contamination of groundwater by mining related activities may result in fines, penalties, and remediation costs, among other sanctions and liabilities under the SDWA and state laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury.

***Regulations and pending legislation governing issues involving climate change could result in increased operating costs, which could have a material adverse effect on our business.***

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to various climate change interest groups and the potential impact of climate change. Legislation and increased regulation regarding climate change could impose significant costs on us, our future partners and our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. Any adopted future climate change regulations could also negatively impact our ability to compete with companies situated in areas not subject to such limitations. Given the emotion, political significance and uncertainty around the impact of climate change and how it should be dealt with, we cannot predict how legislation and regulation will affect our financial condition, operating performance and ability to compete. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about potential impacts on climate change by us or other companies in our industry could harm our reputation. The potential physical impacts of climate change on our operations are highly uncertain and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely impact the cost, production and financial performance of our operations.

***Land reclamation requirements for our properties may be burdensome and expensive in the future.***

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Land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance.

Reclamation may include requirements to:

- control dispersion of potentially deleterious effluents;