

INTERNATIONAL TOWER HILL MINES LTD  
Form 10-Q  
May 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2015

OR

**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**

(Address of Principal Executive Offices)

**V6E 2K3**

(Zip code)

Registrant's telephone number, including area code: **(604) 683-6332**

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

Accelerated Filer

Non-Accelerated filer

Small Reporting company

(Do not check if a smaller reporting company)

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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 4, 2015, the registrant had 116,313,638 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 potential for opportunities to improve the economics of the Livengood Gold Project by reducing certain capital and operating costs;
- the potential for higher head grades at the Project;
- the Company's ability to potentially include the results of the optimization process in a new or updated feasibility study or any future financial analysis of the Project;
- the Company's ability to carry forward and incorporate into future engineering studies of the Project *updated* mine design, production schedule, and recovery concepts identified during the optimization process;
- the potential for the Company to carry out an engineering phase that will evaluate and optimize the Project configuration and capital and operating expenses, including determining the optimum scale for the Project;
- the Company's strategies and objectives, both generally and specifically in respect of the Livengood Gold Project;
- The Company's belief that there are no known environmental issues that are anticipated to materially impact the Company's ability to conduct mining operations at the 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, the Company's ability to meet its financial obligations as they come due, and the Company's ability to be able to raise the necessary funds to continue operations on acceptable terms, if at all; and

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- future general business and economic conditions, including changes in the price of gold and the overall sentiment of the markets for public equity.

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);
  - defects in title to claims, or the ability to obtain surface rights, either of which could affect our property rights and claims;
  - 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 services and supplies on favorable terms in connection with its programs 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;
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- the timing of the receipt of and the terms of the consents, permits and authorizations necessary to carry out 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 I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2014, 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, 2015 and December 31, 2014

(Expressed in US Dollars - Unaudited)

|   | Note | March 31,<br>2015 | December 31,<br>2014 |
|---|------|-------------------|----------------------|
| <b>ASSETS</b>   |      |                   |                      |
| <b>Current</b>  |      |                   |                      |
| Cash and cash equivalents   | \$   | 11,294,428        | \$ 13,521,473        |
| Prepaid expenses and other  |      | 175,908           | 242,058              |
| Total current assets  |      | 11,470,336        | 13,763,531           |
| Property and equipment  |      | 35,360            | 37,128               |
| Capitalized acquisition costs   | 4    | 55,204,041        | 55,204,041           |
| <b>Total assets</b>   | \$   | <b>66,709,737</b> | <b>\$ 69,004,700</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |      |                   |                      |
| <b>Current liabilities</b>  |      |                   |                      |
| Accounts payable  | \$   | 166,599           | \$ 270,488           |
| Accrued liabilities   |      | 289,969           | 878,682              |
| Total current liabilities   |      | 456,568           | 1,149,170            |
| <b>Non-current liabilities</b>  |      |                   |                      |
| Derivative liability  | 6    | 14,500,000        | 14,700,000           |
| Total liabilities   |      | 14,956,568        | 15,849,170           |
| <b>Shareholders equity</b>  |      |                   |                      |
| Share capital, no par value; authorized 500,000,000 shares; 116,313,638 shares issued and outstanding at March 31, 2015 and December 31, 2014 | 7    | 243,692,185       | 243,692,185          |
| Contributed surplus   |      | 33,708,961        | 33,439,249           |
| Accumulated other comprehensive income  |      | 1,160,674         | 2,196,252            |
| Deficit   |      | (226,808,651)     | (226,172,156)        |
| Total shareholders equity   |      | 51,753,169        | 53,155,530           |

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|  |    |            |    |            |
|--|----|------------|----|------------|
| Total liabilities and shareholders' equity | \$ | 66,709,737 | \$ | 69,004,700 |
|--|----|------------|----|------------|

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, 2015 and 2014

(Expressed in US Dollars - Unaudited)

|   | Note | Three Months Ended    |                       |
|---|------|-----------------------|-----------------------|
|   |      | March 31, 2015        | March 31, 2014        |
| <b>Operating expenses</b>                                     |      |                       |                       |
| Consulting fees   |      | \$ 147,370            | \$ (10,391)           |
| Depreciation  |      | 1,769                 | 3,945                 |
| Insurance   |      | 67,377                | 62,632                |
| Investor relations  |      | 32,203                | 90,690                |
| Mineral property exploration                                  | 4    | 401,330               | 615,162               |
| Office  |      | 6,988                 | 21,781                |
| Other   |      | 4,761                 | 9,117                 |
| Professional fees   |      | 50,146                | 146,396               |
| Regulatory  |      | 70,852                | 34,255                |
| Rent  |      | 40,880                | 49,456                |
| Travel  |      | 20,853                | 39,551                |
| Wages and benefits  |      | 710,577               | 1,248,655             |
| <b>Total operating expenses</b>                               |      | <b>(1,555,106)</b>    | <b>(2,311,249)</b>    |
| <b>Other income (expenses)</b>                                |      |                       |                       |
| Gain on foreign exchange                                      |      | 702,255               | 284,129               |
| Interest income   |      | 16,356                | 16,801                |
| Unrealized gain/(loss) on derivative                          | 6    | 200,000               | (1,500,000)           |
| <b>Total other income (expense)</b>                           |      | <b>918,611</b>        | <b>(1,199,070)</b>    |
| <b>Net loss for the period</b>                                |      | <b>(636,495)</b>      | <b>(3,510,319)</b>    |
| <b>Other comprehensive income (loss)</b>                      |      |                       |                       |
| Unrealized loss on marketable securities                      |      | (8,379)               |                       |
| Exchange difference on translating foreign operations         |      | (1,027,199)           | (450,529)             |
| <b>Total other comprehensive income (loss) for the period</b> |      | <b>(1,035,578)</b>    | <b>(450,529)</b>      |
| <b>Comprehensive loss for the period</b>                      |      | <b>\$ (1,672,073)</b> | <b>\$ (3,960,848)</b> |
| <b>Basic and fully diluted loss per share</b>                 |      | <b>\$ (0.01)</b>      | <b>\$ (0.04)</b>      |
| <b>Weighted average number of shares outstanding</b>          |      | <b>116,313,638</b>    | <b>98,068,638</b>     |

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, 2015 and 2014

(Expressed in US Dollars - Unaudited)

|  | Number of<br>shares | Share capital  | Contributed<br>surplus | Accumulated<br>other<br>comprehensive<br>income/(loss) | Deficit          | Total         |
|--|---------------------|----------------|------------------------|--|------------------|---------------|
| 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<br>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 |
| Private placement  | 18,245,000          | 7,315,917      |                        |  |                  | 7,315,917     |
| Share issuance costs                                     |                     | (24,828)       |                        |  |                  | (24,828)      |
| Stock based compensation                                 |                     |                | 666,803                |  |                  | 666,803       |
| Unrealized loss on<br>available-for-sale securities      |                     |                |                        | (24,717)   |                  | (24,717)      |
| Exchange difference on<br>translating foreign operations |                     |                |                        | (349,783)  |                  | (349,783)     |
| Net loss   |                     |                |                        |  | (4,256,777)      | (4,256,777)   |
| Balance, December 31, 2014                               | 116,313,638         | 243,692,185    | 33,439,249             | 2,196,252  | (226,172,156)    | 53,155,530    |
| Stock based compensation                                 |                     |                | 269,712                |  |                  | 269,712       |
| Unrealized loss on<br>available-for-sale securities      |                     |                |                        | (8,379)  |                  | (8,379)       |
| Exchange difference on<br>translating foreign operations |                     |                |                        | (1,027,199)  |                  | (1,027,199)   |
| Net loss   |                     |                |                        |  | (636,495)        | (636,495)     |
| Balance, March 31, 2015                                  | 116,313,638         | \$ 243,692,185 | \$ 33,708,961          | \$ 1,160,674   | \$ (226,808,651) | \$ 51,753,169 |

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, 2015 and 2014

(Expressed in US Dollars - Unaudited)

|   | <b>Three Months Ended</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>March 31, 2015</b>     | <b>March 31, 2014</b> |
| <b>Operating Activities</b>                               |                           |                       |
| Loss for the period                                       | \$ (636,495)              | \$ (3,510,319)        |
| Add items not affecting cash:                             |                           |                       |
| Depreciation  | 1,769                     | 3,945                 |
| Stock based compensation                                  | 269,712                   | 618,582               |
| Unrealized (gain) loss on derivative liability            | (200,000)                 | 1,500,000             |
| Changes in non-cash items:                                |                           |                       |
| Accounts receivable                                       | 54,027                    | 21,775                |
| Prepaid expenses  | 21,626                    | 17,436                |
| Advance to contractors                                    | 19,703                    |                       |
| Accounts payable and accrued liabilities                  | (680,834)                 | (706,105)             |
| <b>Cash used in operating activities</b>                  | <b>(1,150,492)</b>        | <b>(2,054,686)</b>    |
| <b>Financing Activities</b>                               |                           |                       |
| <b>Cash provided by financing activities</b>              |                           |                       |
| <b>Investing Activities</b>                               |                           |                       |
| Change in restricted cash                                 |                           | 30,477                |
| Capitalized acquisition costs                             |                           | (30,477)              |
| <b>Cash used in investing activities</b>                  |                           |                       |
| <b>Effect of foreign exchange on cash</b>                 | <b>(1,076,553)</b>        | <b>(491,368)</b>      |
| <b>(Decrease) increase in cash and cash equivalents</b>   | <b>(2,227,045)</b>        | <b>(2,546,054)</b>    |
| <b>Cash and cash equivalents, beginning of the period</b> | <b>13,521,473</b>         | <b>13,925,601</b>     |
| <b>Cash and cash equivalents, end of the period</b>       | <b>\$ 11,294,428</b>      | <b>\$ 11,379,547</b>  |

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, 2015 and 2014

(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, 2015, 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 the Livengood Project, 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, 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, 2014 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, 2015 and the results of its operations for the three months then ended. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The 2014 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, 2015 and 2014

(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, 2015 |                      |
|-------------------------------|---------------------------------|----------------------|
|                               | Level 1                         | Level 2              |
| <b>Financial assets:</b>      |                                 |                      |
| Marketable securities         | \$ 16,401                       | \$                   |
| <b>Total</b>                  | <b>\$ 16,401</b>                | <b>\$</b>            |
| <b>Financial liabilities:</b> |                                 |                      |
| Derivative liability (note 6) | \$                              | \$ 14,500,000        |
| <b>Total</b>                  | <b>\$</b>                       | <b>\$ 14,500,000</b> |

|                               | Fair value as at December 31, 2014 |                      |
|-------------------------------|------------------------------------|----------------------|
|                               | Level 1                            | Level 2              |
| <b>Financial assets:</b>      |                                    |                      |
| Marketable securities         | \$ 26,894                          | \$                   |
| <b>Total</b>                  | <b>\$ 26,894</b>                   | <b>\$</b>            |
| <b>Financial liabilities:</b> |                                    |                      |
| Derivative liability (note 6) | \$                                 | \$ 14,700,000        |
| <b>Total</b>                  | <b>\$</b>                          | <b>\$ 14,700,000</b> |

**4. CAPITALIZED ACQUISITION COSTS**

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

| <b>Capitalized acquisition costs</b> | <b>Amount</b> |
|--------------------------------------|---------------|
| <b>Balance, December 31, 2014</b>    | \$ 55,204,041 |
| Acquisition costs                    |               |
| <b>Balance, March 31, 2015</b>       | \$ 55,204,041 |

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The following table presents costs incurred for exploration and evaluation activities for the three months ended March 31, 2015 and 2014:

|                                   | March 31, 2015 | March 31, 2014 |
|-----------------------------------|----------------|----------------|
| Exploration costs:                |                |                |
| Assay                             | \$ 9,984       | 600            |
| Drilling                          |                | 20,990         |
| Environmental                     | 179,994        | 363,474        |
| Equipment rental                  | 11,707         | 16,836         |
| Field costs                       | 73,788         | 69,103         |
| Geological/geophysical            | 72,991         | 1,500          |
| Land maintenance & tenure         | 36,492         | 36,330         |
| Legal                             | 15,423         | 86,716         |
| Surveying and mapping             |                | 10,321         |
| Transportation and travel         | 951            | 9,292          |
| Total expenditures for the period | \$ 401,330     | \$ 615,162     |

**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 (all of which minimum royalties are recoverable from production 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 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

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December 2011. During the three months ended March 31, 2015 and from the inception of this lease the Company has paid \$0 and \$1,648,923, respectively.

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. During the three months ended March 31, 2015 and from the inception of this lease the Company has paid \$0 and \$530,000, respectively.

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. During the three months ended March 31, 2015 and from the inception of this lease the Company has paid \$20,000 and \$145,000, respectively.

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. During the three months ended March 31, 2015 and from the inception of this lease the Company has paid \$15,000 and \$98,000, respectively.

**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, 2015 and December 31, 2014.

|                     | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---------------------|---------------------------|------------------------------|
| Accrued liabilities | \$ 233,766                | \$ 334,423                   |

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|                               |    |         |    |         |
|-------------------------------|----|---------|----|---------|
| Accrued severance             |    | 27,907  |    | 390,659 |
| Accrued salaries and benefits |    | 28,296  |    | 153,600 |
| Total accrued liabilities     | \$ | 289,969 | \$ | 878,682 |

Accrued liabilities at March 31, 2015 include accruals for general corporate costs and project costs of \$29,902 and \$203,864, respectively. Accrued liabilities at December 31, 2014 include accruals for general corporate costs and project costs of \$74,413 and \$260,010, 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, 2015 and projected gold prices from March 31, 2015 to the end of the five year period in December 2016 of \$1,348 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<br/>Price (\$/oz.)</b> |
|--|---------------|--|
| <b>Derivative value at December 31, 2014</b> | \$ 14,700,000 | \$ 1,356                               |
| Unrealized gain for the period               | (200,000)     |  |
| <b>Derivative value at March 31, 2015</b>    | \$ 14,500,000 | \$ 1,348                               |

**7. SHARE CAPITAL**

**Authorized**

Authorized share capital consists of 500,000,000 common shares without par value. At March 31, 2015 and December 31, 2014 there were 116,313,638 shares issued and outstanding.

**Share issuances**

There were no share issuances during the three months ended March 31, 2015.

**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 shall be fixed in compliance with the applicable provisions of the TSX Company Manual in force at the time of grant and, in any event, shall not be less than the closing price of the Company's common shares on the TSX on the trading day immediately preceding the day on which the option is granted, 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, 2015, the Company granted incentive stock options to certain officers, employees and consultants of the Company to purchase a total of 2,105,200 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, 2015:

### Options Granted During the Three Months Ended March 31, 2015

| Grant Date     | Expiry Date    | Number of<br>Options | Exercise<br>Price (C\$) |
|----------------|----------------|----------------------|-------------------------|
| March 16, 2015 | March 16, 2023 | 1,260,000            | \$ 1.00                 |
| March 16, 2015 | March 16, 2023 | 845,200              | \$ 0.50                 |

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A summary of the status of the stock option plan as of March 31, 2015, and December 31, 2014 and changes is presented below:

|                                  | Three Months Ended<br>March 31, 2015 |  | Year Ended<br>December 31, 2014 |  |
|----------------------------------|--------------------------------------|--|---------------------------------|--|
|                                  | Number of<br>Options                 | Weighted<br>Average<br>Exercise Price<br>(C\$) | Number of<br>Options            | Weighted<br>Average<br>Exercise Price<br>(C\$) |
| Balance, beginning of the period | 5,854,000                            | \$ 2.68  | 5,493,000                       | \$ 3.57  |
| Granted                          | 2,105,200                            | \$ 0.80  | 2,480,000                       | \$ 1.00  |
| Forfeited                        |                                      | \$   | (600,000)                       | \$ 3.17  |
| Cancelled                        | (1,561,000)                          | \$ 4.53  | (1,519,000)                     | \$ 2.97  |
| Balance, end of the period       | 6,398,200                            | \$ 1.61  | 5,854,000                       | \$ 2.68  |

The weighted average remaining life of options outstanding at March 31, 2015 was 5.8 years.

Stock options outstanding are as follows:

| Expiry Date       | Exercise<br>Price (C\$) | March 31, 2015       |             | Exercise<br>Price (C\$) | December 31, 2014    |             |
|-------------------|-------------------------|----------------------|-------------|-------------------------|----------------------|-------------|
|                   |                         | Number of<br>Options | Exercisable |                         | Number of<br>Options | Exercisable |
| August 23, 2016   | \$                      |                      |             | \$ 8.07                 | 600,000              | 600,000     |
| January 9, 2017   | \$ 4.60                 | 30,000               | 30,000      | \$ 4.60                 | 30,000               | 30,000      |
| August 24, 2017   | \$ 3.17                 | 1,775,000            | 1,775,000   | \$ 3.17                 | 2,275,000            | 2,275,000   |
| March 14, 2018    | \$ 2.18                 | 344,000              | 344,000     | \$ 2.18                 | 469,000              | 312,660     |
| February 25, 2022 | \$ 1.11                 | 1,030,000            | 686,666     | \$ 1.11                 | 1,360,000            | 453,333     |
| February 25, 2022 | \$ 0.73                 | 684,000              | 456,000     | \$ 0.73                 | 690,000              | 230,000     |
| March 10, 2022    | \$ 1.11                 | 430,000              | 286,666     | \$ 1.11                 | 430,000              | 143,333     |
| March 16, 2023    | \$ 0.50                 | 845,200              | 281,733     | \$                      |                      |             |
| March 16, 2023    | \$ 1.00                 | 1,260,000            | 419,999     | \$                      |                      |             |
|                   |                         | 6,398,200            | 4,280,064   |                         | 5,854,000            | 4,044,326   |

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A summary of the non-vested options as of March 31, 2015 and changes during the three months ended March 31, 2015 is as follows:

| <b>Non-vested options:</b>       | <b>Number of<br/>options</b> | <b>Weighted<br/>average grant-<br/>date fair value<br/>(C\$)</b> |
|----------------------------------|------------------------------|--|
| Outstanding at December 31, 2014 | 1,809,674                    | \$ 0.49  |
| Granted                          | 2,105,200                    | \$ 0.25  |
| Cancelled                        | (112,000)                    | \$ 0.45  |
| Vested                           | (1,684,738)                  | \$ 0.39  |
| Outstanding at March 31, 2015    | 2,118,136                    | \$ 0.34  |

At March 31, 2015 there was unrecognized compensation expense of C\$506,996 related to non-vested options outstanding. The cost is expected to be recognized over a weighted-average remaining period of approximately 1.3 years.

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**Share-based payments**

During the three month period ended March 31, 2015, the Company granted 2,105,200 stock options with a fair value of \$429,359, calculated using the Black-Scholes option pricing model. Share-based payment charges for the three months ended March 31, 2015 totaled \$269,712.

During the three month period ended March 31, 2014, the Company granted 2,480,000 stock options with a fair value of \$1,109,920, calculated using the Black-Scholes option pricing model. Share-based payment charges for the three months ended March 31, 2014 totaled \$618,582.

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

|                          | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--------------------------|---------------------------|------------------------------|
| Expected life of options | 6 years                   | 6 years                      |
| Risk-free interest rate  | 0.97%                     | 1.83%                        |
| Annualized volatility    | 80.60%                    | 81.02%                       |
| Dividend rate            | 0.00%                     | 0.00%                        |
| Exercise price (C\$)     | \$0.80                    | \$1.00                       |

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, 2015</b>         |               |               |               |
| Capitalized acquisition costs | \$            | \$ 55,204,041 | \$ 55,204,041 |
| Property and equipment        | 10,242        | 25,118        | 35,360        |
| Current assets                | 10,904,645    | 565,691       | 11,470,336    |
| Total assets                  | \$ 10,914,887 | \$ 55,794,850 | \$ 66,709,737 |
| <b>December 31, 2014</b>      |               |               |               |
| Capitalized acquisition costs | \$            | \$ 55,204,041 | \$ 55,204,041 |
| Property and equipment        | 10,477        | 26,651        | 37,128        |
| Current assets                | 13,003,412    | 760,119       | 13,763,531    |
| Total assets                  | \$ 13,013,889 | \$ 55,990,811 | \$ 69,004,700 |

| Three months ended                        |    | March 31, 2015 | March 31, 2014 |
|---|----|----------------|----------------|
| Net income (loss) for the period - Canada | \$ | 192,597        | \$ (669,051)   |
| Net loss for the period - United States   |    | (829,092)      | (2,841,268)    |
| Net loss for the period                   | \$ | (636,495)      | \$ (3,510,319) |

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**9. COMMITMENTS**

The following table discloses, as of March 31, 2015, 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 such payments or incur 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                |
|--|----------------------|-------------------|----------------------|-------------------|-------------------|-------------------|----------------------|
|  | 2015                 | 2016              | 2017                 | 2018              | 2019              | 2020 and beyond   |                      |
| Livengood Property Purchase(1)         | \$                   | \$                | \$ 14,500,000        | \$                | \$                | \$                | \$ 14,500,000        |
| Mineral Property Leases(2)             | 377,398              | 417,309           | 422,294              | 427,353           | 437,488           | 442,700           | 2,524,542            |
| Mining Claim Government Fees           | 115,205              | 77,230            | 77,230               | 77,230            | 77,230            | 77,230            | 501,355              |
| Office and Equipment Lease Obligations | 55,412               |                   |                      |                   |                   |                   | 55,412               |
| <b>Total</b>                           | <b>\$ 548,015</b>    | <b>\$ 494,539</b> | <b>\$ 14,999,524</b> | <b>\$ 504,583</b> | <b>\$ 514,718</b> | <b>\$ 519,930</b> | <b>\$ 17,581,309</b> |

(1) The amount payable in January 2017 of \$14,500,000 represents the fair value of the Company's derivative liability as at March 31, 2015 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.

**10. RELATED PARTY TRANSACTIONS**

In December 2011, in accordance with a Stock and Asset Purchase Agreement (the Agreement) between the Company, Alaska/Nevada Gold Mines, Ltd. (AN Gold Mines) and the Heflinger Group, the Company acquired certain mining claims and related rights in the vicinity of the Livengood Gold Project located near Fairbanks, Alaska. The Company's derivative liability, as described in Note 6 above, represents the remaining consideration for the purchase of these claims and related rights and is payable in January 2017. Under the Agreement, the payment is due 70% to AN Gold Mines and 30% to the Heflinger Group.

Mr. Hanneman was appointed Chief Operating Officer of the Company on March 26, 2015. Mr. Hanneman is a partner of the general partner, as well as a limited partner, of AN Gold Mines and holds an 11.9% net interest in AN Gold Mines.

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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, 2014. All currency amounts are stated in US dollars unless noted otherwise.

**Current Business Activities**

*Livengood Gold Project*

During the three months ended March 31, 2015 and to the date of this Quarterly Report on Form 10-Q, the Company progressed on its metallurgical, field and engineering work plan that was developed due to the potential importance of the head grade evaluation performed during 2014. A significant multi-phase metallurgical test work program is underway in an attempt to validate the observed higher calculated head grades. The objectives of the 2015 metallurgical test program are to:

- Optimize the gravity circuit;
- Optimize the grind size and power consumption;
- Optimize the reagent consumption;
- Optimize the leach retention time;
- Confirm the overall recoveries by rock type; and
- Provide additional confirmation of the Project head grades.

Review of the feasibility test work to date indicates that there is a potential that further optimization of the parameters noted above could result in capital and operating expenditure reductions for the Project. **However, until this multi-phase metallurgical program has been completed, there can be no assurance that the head grade differences observed to date, or the potential process optimizations and cost savings opportunities identified, will in fact be realized.**

Field work has also begun to advance the environmental baseline and to evaluate alternatives for fresh water supply with potential to reduce Project costs.



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Once the test work and field work are completed and the process costs are better defined, these costs will then serve as input to an engineering phase that will evaluate and optimize the Project configuration and capital and operating expenditures, including determining the optimum scale for the Project, any of which may be different than that assumed in the technical report entitled Canadian National Instrument 43-101 Technical Report on the Livengood Gold Project, Feasibility Study, Livengood, Alaska dated September 4, 2013 and prepared by certain Qualified Persons under NI 43-101, as filed under the Company's profile on SEDAR (the September 2013 Study). In order to support the completion of this work plan, the Company anticipates spending approximately \$10 million, including general and administrative expenses, during the 2015 fiscal year ending December 31, 2015.

### *Management Change*

On March 26, 2015 the Company appointed Karl Hanneman as its Chief Operating Officer. Mr. Hanneman most recently has been serving as General Manager for the Company. Mr. Hanneman has been with the Company since May 2010, during which time he was responsible for assembling the Alaska team and served as the Livengood Gold Project Manager.

In December 2014, the Company announced the resignation of Mr. Tom Yip, its Chief Financial Officer, effective December 31, 2014. Mr. Yip will provide transitional services to the Company as a consultant to ensure financial continuity and oversight for a period of three to six months following December 31, 2014. The Company is evaluating the most cost effective structure to fill the role of chief financial officer and is searching for a replacement for Mr. Yip.

Table of Contents**Results of Operations****Summary of Quarterly Results**

| Description                                 | March 31, 2015 | December 31, 2014 | September 30, 2014 | June 30, 2014  |
|---|----------------|-------------------|--------------------|----------------|
| Net loss                                    | \$ (636,495)   | \$ (1,654,469)    | \$ (1,170,906)     | \$ (1,431,402) |
| Basic and diluted net loss per common share | \$ (0.01)      | \$ (0.02)         | \$ (0.01)          | \$ (0.01)      |

| Description                                 | March 31, 2014 | December 31, 2013 | September 30, 2013 | June 30, 2013 |
|---|----------------|-------------------|--------------------|---------------|
| 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)     |

***Three Months Ended March 31, 2015 compared to Three Months Ended March 31, 2014***

The Company incurred a net loss of \$636,495 for the three month period ended March 31, 2015, compared to a net loss of \$3,510,319 for the three month period ended March 31, 2014. The following discussion highlights certain selected financial information and changes in operations between the three months ended March 31, 2015 and the three months ended March 31, 2014.

Mineral property expenditures decreased to \$401,330 for the three months ended March 31, 2015 from \$615,162 for the three months ended March 31, 2014 primary due to reduction of work performed on the environmental baseline.

Share-based payment charges were \$269,712 during the three months ended March 31, 2015 compared to \$618,582 during the three months ended March 31, 2014. 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. The Company granted 2,105,200 options with a fair value of C\$518,970 during the three months ended March 31, 2015 compared to 2,480,000 options with a fair value of C\$1,224,537 during the three months ended March 31, 2014.

Share-based payment charges

Share-based payment charges for the three month periods ended March 31, 2015 and 2014 were allocated as follows:

| Expense category:  | March 31, 2015 | March 31, 2014 |
|--------------------|----------------|----------------|
| Consulting         | \$ 51,885      | \$ (64,083)    |
| Investor relations | 13,156         | 41,398         |
| Wages and benefits | 204,671        | 641,267        |
|                    | \$ 269,712     | \$ 618,582     |

Share-based payments to consultants increased from a credit of \$64,083 to expense of \$51,885 as a result of forfeitures of previously granted stock options to consultants in 2014. Excluding share-based payment charges of \$204,671 and \$641,267 respectively, wages and benefits for the period decreased to \$505,906 during the three months ended March 31, 2015 from \$607,388 during the three months ended March 31, 2014 as a result of the resignation of the Company's Chief Financial Officer on December 31, 2014.

Professional fees decreased to \$50,146 during the three months ended March 31, 2015 from \$146,396 during the three months ended March 31, 2014 mainly due to prior year costs for the transition to US GAAP accounting, a reduction in legal fee retainers as well as lower audit fees in 2015. All other expense categories reflected moderate changes period over period generally reflecting the Company's efforts to reduce spending.

Total other income amounted to \$918,611 during the three month period ended March 31, 2015 compared to total other expense of \$1,199,070 during the three month period ended March 31, 2014. The income in the current period resulted mainly from foreign exchange gains related to U.S. cash balances held at the Canadian parent entity and an unrealized gain of \$0.2 million on the revaluation of the derivative liability at March 31, 2015 resulting from a decrease in the historical and estimated future average price of gold. During the three months ended March 31, 2014 foreign exchange gain amounted to \$284,129. The average exchange rate during the three month period ended March 31, 2015 was C\$1 to US\$0.806 compared to C\$1 to US\$0.906 for the three month period ended March 31, 2014. The revaluation of the derivative liability at March 31, 2014 resulted in an unrealized loss of \$1.5 million for the three month period.

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

As at March 31, 2015, the Company reported cash and cash equivalents of \$11,294,428 compared to \$13,521,473 at December 31, 2014. The decrease of approximately \$2.2 million resulted mainly from expenditures on the Livengood Gold Project of approximately \$0.7 million, severance payments of approximately \$0.4 million and a negative foreign currency translation impact of approximately \$1.1 million. The Company continues to utilize its cash resources to pursue opportunities identified in the September 2013 Study and subsequently identified by the Company, to fund environmental activities required for preservation of baseline database and future permitting as well as to complete corporate administrative requirements.

The Company had no cash flows from investing activities during the three month period ended March 31, 2015. Investing activities during the three month period ended March 31, 2014 comprised of solely the transfer of restricted cash to capitalized acquisition costs for land acquisitions that closed in January 2014.

The Company had no cash flows from financing activities during the three month periods ended March 31, 2015 and 2014.

As at March 31, 2015 the Company had working capital of \$11,013,768 compared to working capital of \$12,614,361 at December 31, 2014. The Company expects that it will operate at a loss for the foreseeable future, but believes the current cash and cash equivalents will be sufficient for it to complete its anticipated 2015 work plan at the Livengood Gold Project and satisfy its currently anticipated general and administrative costs, through the 2015 fiscal year and well into 2016. To advance the Livengood Gold Project towards permitting and development, the Company anticipates maintaining certain essential development activities for the fiscal year ending December 31, 2015. These essential activities include maintaining environmental baseline data that in its absence could materially delay future permitting of the Livengood Gold Project. Due to the potential importance of the 2014 head grade evaluation to the Project, a significant multi-phase metallurgical test work program has begun in an attempt to validate the observed higher calculated head grades. The Company anticipates spending approximately \$10 million during fiscal year 2015 on metallurgical work and project engineering as well as to maintain the environmental baseline activity, and perform required general and administrative duties.

The Company will require significant additional financing to continue its operations (including general and administrative expenses) in connection with advancing activities at the Livengood Gold Project, the contingent payment due in January 2017 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.

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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. disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. 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 the Project to preserve its working capital to fund anticipated non-discretionary expenditures beyond the 2015 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.

Table of Contents**Contractual Obligations**

The following table discloses, as of March 31, 2015, 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 such payments or incur 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                |
|--|----------------------|-------------------|----------------------|-------------------|-------------------|-------------------|----------------------|
|  | 2015                 | 2016              | 2017                 | 2018              | 2019              | 2020 and beyond   |                      |
| Livengood Property Purchase(1)         | \$                   | \$                | \$ 14,500,000        | \$                | \$                | \$                | \$ 14,500,000        |
| Mineral Property Leases(2)             | 377,398              | 417,309           | 422,294              | 427,353           | 437,488           | 442,700           | 2,524,542            |
| Mining Claim Government Fees           | 115,205              | 77,230            | 77,230               | 77,230            | 77,230            | 77,230            | 501,355              |
| Office and Equipment Lease Obligations | 55,412               |                   |                      |                   |                   |                   | 55,412               |
| <b>Total</b>                           | <b>\$ 548,015</b>    | <b>\$ 494,539</b> | <b>\$ 14,999,524</b> | <b>\$ 504,583</b> | <b>\$ 514,718</b> | <b>\$ 519,930</b> | <b>\$ 17,581,309</b> |

(1) The amount payable in January 2017 of \$14,500,000 represents the fair value of the Company's derivative liability as at March 31, 2015 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).

**Other Related Party Transactions**

In December 2011, in accordance with a Stock and Asset Purchase Agreement (the Agreement) between the Company, Alaska/Nevada Gold Mines, Ltd. (AN Gold Mines) and the Heflinger Group, the Company acquired certain mining claims and related rights in the vicinity of the Livengood Gold Project located near Fairbanks, Alaska. The Company's derivative liability, as described in Note 6 of the financial statements above, represents the remaining consideration for the purchase of these claims and related rights and is payable in January 2017. Under the Agreement, the payment is due 70% to AN Gold Mines and 30% to the Heflinger Group.

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Mr. Karl Hanneman was appointed Chief Operating Officer of the Company on March 26, 2015. Mr. Hanneman is a partner of the general partner, as well as a limited partner, of AN Gold Mines and holds an 11.9% net interest in AN Gold Mines. Mr. Hanneman's interest in AN Gold Mines dates to the 1980's and pre-dates the Company's interest in the Livengood Gold Project, pre-dates his May 2010 employment with the Company, and was disclosed to the Company prior to his employment. Because of Mr. Hanneman's interest in the derivative liability, the Company has excluded and will continue to exclude Mr. Hanneman from participating in any discussions, calculations or other matters related to the derivative liability on behalf of the Company, and any future agreements or arrangements related to the derivative liability will be subject to the prior review and approval of the Company's Audit Committee in accordance with the Company's policies for related party transactions.

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**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, 2014, 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, concentration of credit 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 in the United States and Canada 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, 2015, the Company held a total of \$10,552,430 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 \$50,000.

***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 are denominated in U.S. dollars, currency risk is limited to those Canadian cash balances. The Company has not entered into any foreign currency contracts to mitigate this risk. Over the past twelve months, the U.S. to Canadian dollar exchange rate has fluctuated as much as 15%. The Company's sensitivity analysis suggests that a consistent 15% change in the absolute rate of exchange for the Canadian dollar would affect net assets by approximately \$635,000. 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, 2015, Canadian dollar balances were converted at a rate of C\$1 to \$0.7885.

***Credit Risk***

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at one major Canadian financial institution. Credit risk with regard to cash held in the United States at U.S. subsidiaries is mitigated as the amount held in the United States is only sufficient to cover short-term cash requirements. With respect to receivables at March 31, 2015, 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 investment in marketable securities is exposed to such risk. The Company's derivative liability, which consists of a future contingent payment valued using 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, 2015, 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 the Principal Financial 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 Principal Financial and Accounting Officer have concluded that, as of March 31, 2015, 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 Principal Financial and Accounting 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, 2015 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**

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 under the heading Risk Factors.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Pursuant to Section 1503(a) of the Dodd-Frank Act, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose specified information about mine health and safety in their periodic reports. These reporting requirements are based on the safety and health requirements applicable to mines under the Federal Mine Safety and Health Act of 1977 (the Mine Act) which is administered by the U.S. Department of Labor's Mine Safety and Health Administration (MSHA). During the three month period ended March 31, 2015, the Company and its subsidiaries were not subject to regulation by MSHA under the Mine Act and thus no disclosure is required under Section 1503(a) of the Dodd-Frank Act.

**ITEM 5. OTHER INFORMATION**

Not applicable.

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**ITEM 6. EXHIBITS**

- 10.1 Employment Agreement between Karl Hanneman and Tower Hill Mines (US) LLC dated March 12, 2013.
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial and Accounting Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014, (ii) the Condensed Consolidated Interim Statements of Operations and Comprehensive Loss for the Three Months ended March 31, 2015 and 2014, (iii) the Condensed Consolidated Interim Statements of Changes in Shareholders Equity for the Three Months Ended March 31, 2015 and 2014, (iii) the Condensed Consolidated Interim Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014, and (iv) the Notes to the Condensed Consolidated Interim Financial Statements.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

By: /s/ Thomas E. Irwin  
Thomas E. Irwin  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 6, 2015

By: /s/ Tom S.Q. Yip  
Tom S.Q. Yip  
Consultant  
(Principal Financial and Accounting Officer)

Date: May 6, 2015

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