

# Comstock Metals Ltd.

Form 51-102F1

## Management's Discussion and Analysis For the Three Months Ended December 31, 2013

This Management Discussion and Analysis ("MD&A"), dated as of February 17, 2014, should be read in conjunction with the audited consolidated financial statements for the Three Months ended December 31, 2013 of Comstock Metals Ltd. (also referred to as "Comstock" or the "Company", or "we" or "our") and other corporate filings available under Comstock's company profile on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website, [www.comstock-metals.com](http://www.comstock-metals.com). We report our financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

### Overview and Overall Performance

Comstock Metals is a gold exploration company with its shares traded on the TSX Venture Exchange under the symbol "CSL" and led by a technically focused management team engaged in the acquisition and exploration of projects in mining friendly jurisdictions. Comstock is currently engaged in the exploration and development of mineral properties in the White Gold District of the Yukon and in Mexico. For the funding of property acquisitions and exploration the Company depends on the issuance of shares from the treasury to investors and does not use long term debt. Once a deposit of commercial ore is found, the Company may offer to a major mining company the opportunity to acquire an interest in the property in return for funding by the major mining company, of all or part of the exploration and development of the property.

The 2013 Phase I drill program on the VG Zone at its QV project in the White Gold District completed nine core holes totaling 2,188 metres. The drilling substantially expanded the footprint of the VG Zone to 350m by 350m and remains open in all directions. The drill program was aimed at expanding the zones of gold mineralization along strike and down-dip. The current results along with the previously announced results including the 2012 drill program confirm a potential bulk-tonnage target at the VG Zone.

The 2012 drill program completed eight core holes totaling 1,335 metres. The drill program was designed to test strong gold enrichment discovered in trenches at the VG Zone, including 3.31 g/t gold over a 95m sample length from trench six (6), 3.77 g/t gold over 45m in trench fifteen (15) and 2.18 g/t gold over 85m from trench thirteen (13).

In July 2013, the Company completed another private placement totaling 5,669,118 flow-through common shares at \$0.17 per share for gross proceeds of \$963,750 and an additional private placement of 330,000 units at \$0.15 per unit for gross proceeds of \$49,500.

As of December 31, 2013 the Company had working capital of \$826,141 (September 30, 2013 - \$1,022,730) and cash on hand of \$767,765 (September 30, 2013 - \$1,172,787).

### **Recent News**

- November 7, 2013: Outlines 3.25 Sq. kilometre area of Gold in soil anomaly**
- August 1: Drills 57.15 metres of 1.01 grams per tonne Au**
- July 30: Closes Private Placement**
- July 22: Step-out Drilling to the East Intersects VG Zone**
- July 15: Step-out Drilling Significantly Expands VG Zone**
- April 18: Announces Start of Drilling on QV Project, Yukon**

### **QV, Yukon**

Comstock's flagship project is the QV Property in the Yukon Territory, which covers 14,180 hectares (35,000 acres) within the prolific White Gold District in the Yukon Territory, about 70 kilometres south of Dawson City. Comstock optioned the claims from Shawn Ryan, a Yukon based prospector responsible for the discovery of two of the prominent gold discoveries in the White Gold district, Kinross Gold's 1.5 million ounce Golden-Saddle deposit 10 km to the southeast and Kaminak Gold's Coffee projects 40 km to the south.

The QV project is contiguous to the Kinross Gold's Golden Saddle project and hosts a similar style mineralization as the Golden Saddle deposit. The Company has completed 3422 metres of drilling on the VG Zone in 17 diamond-drill holes outlining a 350m by 350m zone that is 250m deep, and remains open in all directions.

The 2011 program included a helicopter airborne magnetic and radiometric survey of 769 line-kilometres at 100 m spacing. Both the airborne survey and the soil surveys identified two gold trends. One trend is oriented north-easterly (QV grid) that measures 2,500m by 500m. The northeasterly trends are known to carry ore-grade gold mineralization, both at Kinross's Golden Saddle and Kaminak's Coffee Project. The second anomalous zone, (Stewart grid) measuring 1,300m by 350m has a north-westerly trend, which parallels the known regional trends in the White Gold District.

The 2012 exploration program started with approximately 1.5 line kilometres of trenching (twelve trenches over 4 zones) along with mapping, prospecting, rock sampling, and additional grid line soil sampling over soil anomalies defined in 2011.

During a trench layout by Jean Pautler, P. Geo visible gold along the margins of a grain of oxidized pyrite was discovered. The gold is hosted by an apparent 075 degree trending quartz vein near the contact between metamorphosed granite (orthogneiss) and a metasedimentary unit the same package of rocks that underlies the White Gold Deposit of Kinross Gold. Additional visible gold was found in a vein, 25 m above the initial visible gold-bearing vein. Several stages of quartz injection are evident with later stockwork veining cutting quartz veining and silicified wallrock and minor brecciation is also evident.

This northeasterly trending visible gold-bearing quartz vein returned 16.28 g/t Au by metallic screen gold assay, and the fine (-150 mesh) fraction returned 13.12 g/t gold (Au), indicating that most of the gold occurs as fine particles. The discovery trench, QVTR12-06, assays 3.74 g/t Au over 75 m, (3.31 g/t over the entire length of the 95 metre long trench), with a maximum grade of 7.31 g/t Au over 5 m. Trench QVTR 12-15 assayed 3.77 g/t Au over 45m, QVTR 12-13 assayed 2.18 g/t Au over 85m and QVTR 12-12 assayed 1.63 g/t Au over 95m.

Based on the success of the 2012 trenching results a late season 2012 drill program was designed to test this strong gold enrichment over a target length of 260 metres along strike and up to 240 metres down dip. The 1334m drill program in 8 holes intersected thick zones of quartz-sericite-carbonate altered quartz-biotite gneiss, feldspar augen gneiss, and feldspar porphyry dikes with stockworked quartz veining, breccias, disseminated and vein controlled pyrite, and, locally, visible gold. The alteration and mineralization appears to be hosted along a north-east trending fault zone, with a shallow 30° dip to the northwest, and overlay intensely potassic and iron altered footwall units. Seven out of the eight diamond-drill holes intersected near-surface gold mineralization, and hole QV12-004 drilled 2.34 grams per tonne gold (g/t Au) over 89.85 metres (m) starting at 43.75 m, including 3.04 g/t Au over 45.5 m.

The 2013 Phase 1 drill program completed 2,088 metres in nine drill holes including one significant step-out drill hole 650 m along strike. The 2013 drilling has extended the VG zone down-dip and along strike and remains open to the east, to the west and down-dip to the north. Gold mineralization is hosted within units of massive, silicified gneiss cut by swarms of quartz vein stockworks and breccia, with disseminated and vein controlled pyrite and occasionally visible gold. With drill-defined dimensions of 350 by 350 metres the VG Zone is becoming one of the largest individual gold-systems in the White Gold District.

The Company is also advancing other targets on the QV project and is receiving results from other segments of its 2013 programme including pneumatic hammer sampling (GeoProbe) designed to sample bedrock beneath soil anomalies with minimum surface disturbance. Field evaluation of the Stewart and Shadow targets, five kilometres to the northeast and twelve kilometres to the north of the VG zone respectively, are suggestive of an intrusion associated mineralized system. Significant gold-in-soil and gold-in-rock anomalies have been defined.

The mapping and prospecting programs focused on parallel structures and mineralization to the Telegraph Fault (hosting the VG Zone) as previously reported (July 22 and August 1, 2013). Sampling was completed on the VG North structure, 1200 metres north of the VG Zone, the Adit Fault, 450 metres south of the VG Zone, the VG Zone area and the Shadow Zone (14 kilometres north of the VG Zone). Gold mineralization with similar grades and geological setting to the VG Zone (Telegraph Fault) was confirmed in these structures. Mapping completed on the Adit Fault shows the host to be a biotite schist with sericite alteration and quartz veining associated with an east-west trending vertical fault (Adit Fault) and low angle shears dipping approximately 30 degrees to the north-northeast. Channel samples previously reported (August 1, 2013) 4.67 g/t Au grab sample yielded 2.90 g/t Au over a 0.50 m-wide quartz vein, 0.083 g/t Au over 1.00 m below the quartz vein, and .676 g/t Au over 0.50 m above the quartz vein. Two grab samples collected seven metres from the channel samples along the vein structure returned 5.61 g/t Au and 3.31 g/t Au.

On the Shadow Zone, two structures have been interpreted from magnetic data and surface mapping. Through soil and rock sampling, the Company also expanded the Shadow Zone target to a 2500 m by 1400 m area, highlighted by a peak gold-in-soil result of 514 ppb gold. Trench sampling in 2012 returned 88 m of 0.33 g/t Au (as reported December 11, 2012). The highest rock grab sample result from 2013 returned 1.51g/t Au. The mineralization at the Shadow Zone is hosted in felsic intrusive and augen gneiss rocks. The zone and structures display similar characteristics to the VG Zone.

Detailed maps of the property and exploration results as well as photographs may be found on the Company's website:

[http://comstock-metals.com/projects/yukon/qv\\_project/](http://comstock-metals.com/projects/yukon/qv_project/)

### **Walhalla Property, Yukon**

The 2013 work program on the Walhalla project included rock and soil sampling. The soil geochem has returned values ranging up to 17 ppb Au, 306 ppm Cu, and 1687 ppm Ni. The rock geochem results have returned gold values ranging up to 294 ppb Au, 121 ppm Cu, and 451 ppm Ni. The Company will plan additional grid-soil sampling and trenching for the 2014 work season.

The Walhalla Property, consists of 1,988 quartz claims covering approximately 41,800 hectares located 120 km southeast of Dawson City, in the White Gold District immediately east of and contiguous with Pacific Ridge's Mariposa Project. Previous work on the property identified strong anomalous gold zones in soils as well as anomalous pathfinder elements such as arsenic and barium. About 1014 ridge-and-spur samples were taken in the western, north-eastern, and south-eastern parts of the property, and significant gold-in-soil anomalies were identified in all areas. Of particular interest were a 3.41 g/t gold-in-soil anomaly in the ridge-and-spur sampling, which was followed up by 366 grid soil samples that returned a value of 6.26 g/t Au – one of the top ten

historically in the entire White Gold District. Copper-in-soils and silver-in-soils are also of interest based on the results received to date.

Prospecting identified an area of float that appears to outline a large breccia system extending approximately 2 km long and 200 m wide. Some of the high gold-in-soils and coincident copper and silver anomalies are found near the breccia. This area of the property is located along the Teslin Fault, a major regional fault system which splays out on the property and is mid Cretaceous in age, which is the age of most Yukon gold mineralization. Other parts of this large property package are underlain by intrusive and metamorphic rocks similar to those found in the White Gold district to the west, and also those which host the Minto copper-gold mine to the south. A helicopter-borne high-resolution aeromagnetic survey was also flown over the property last year, and data from this survey will be used in conjunction with assay results to identify targets for follow-up work such as grid soil-sampling, mechanical trenching, and drilling.

Under the terms of the LOI, the purchase consideration payable by the Company for the Walhalla Property will be (i) \$300,000 cash costs incurred by vendor(s) to acquire the claims, (ii) issue 500,000 common shares of the Company, and (iii) issue an additional 500,000 common shares of the Company upon the determination of an NI 43-101-compliant 500,000 ounce gold resource on the Walhalla Property.

## **Mexico**

The Corona Gold-Silver Project is in the Ocampo-Uruachic District of western Chihuahua, Mexico - a centre of gold and silver production for over 300 years. As a result of Fresnillo PLC's discovery of the Orisyvo gold deposit (Indicated & inferred resources: 2.72 million ounces of gold in oxides and 6.51 million ounces of gold in sulphides), the Uruachic district has drawn the attention of a number of gold exploration companies in addition to Comstock.

The Company has now earned a 60% interest in the Corona Property from Golden Goliath Resources (GNG) in Mexico. Comstock will remain the operator. Agnico Eagle has signed a Letter of Intent with Golden Goliath on its Las Bolas Project in the Uruachic Mining camp in Chihuahua, Mexico. Comstock's Corona Au-Ag project is located in the same camp and during the year Comstock completed a diamond drill program on the Corona property. Previous reverse circulation drilling also identified both bulk tonnage and high-grade vein type gold/silver targets.

In February and March 2012, Comstock completed a diamond-drilling program of twelve holes (2,126 meters), eleven at the Northeast Zone and one at the Esperanza showing. The program discovered two new zones, one of porphyry-style gold mineralization after drilling 34.5 metres of 0.36 g/t gold and the second the Esperanza zone, a high grade gold-silver vein assaying 258 g/t Ag, 6.33 g/t Au, 3.8 % Pb and 2.83% Zn over 1.00 m. The drill hole at Esperanza was the first test of this interesting, high-grade prospect.

Mineralization at Corona is associated with the contact between the “Upper Volcanic Group” (predominately rhyolite) and the “Lower Volcanic Group” (mostly andesite plus sedimentary rocks). This twofold subdivision is in widespread usage in northwestern Mexico, where many of the region’s precious and base metal deposits are found in the Lower Group and the Upper Group often acts as a cover, concealing mineralization.

For its 2012 drill program Comstock constructed and refurbished approximately 16 kilometres of access roads and engaged the services of G4 Drilling of Hermosillo, Mexico. The drill program focused on two targets:

- (i) Low-Grade, Bulk Tonnage, Oxide Gold Mineralization; The majority of the drilling was conducted on the Northeast zone, where bulk tonnage, low-grade style gold mineralization was detected in historic drillholes. The oxidized gold mineralization occurs in altered volcanics adjacent to higher grade gold bearing quartz veins.
- (ii) High-Grade Gold-Silver and Base Metals Veins; During the 2007/2008 exploration program, Comstock completed extensive silt, soil, and rock geochemical surveys which identified new areas of gold, silver, lead and zinc mineralization. One of these areas, the Esperanza Vein, averages 21.5 grams per tonne (g/t) gold (Au), 1175 g/t silver (Ag), 16% lead (Pb), and 1% zinc (Zn) over a narrow width of 15 cm.

Fresnillo PLC’s newly-discovered deposit of 9.2 million ounces of gold in the Uruachic District is bringing great attention to this under-explored part of the Sierra Madre Occidental precious metals belt. Fresnillo is currently conducting an economic study that will include driving an exploration adit and metallurgical studies. Agnico-Eagle has subsequently optioned the neighbouring property of Las Bolas and has recently started its exploration work. The Government is building a paved road to the district’s centre and the hydro line has been recently extended and is now about 6 km away from Corona’s property boundary.

### **Results of Operations**

For the three months ended December 31, 2013 the Company incurred a comprehensive loss of \$63,854 (2012 – \$138,048). Significant differences between the two periods include:

- Filing fees decreased to \$3,927 (2012 - \$14,364) due to a lower amount of share issuances.
- Investor relation costs decreased to \$10,241 (2012 - \$49,389) due to reduced consultant fees,
- Office and administrative increased to \$45,497 (2012 - \$27,886) due to a consultant fee paid to a financial advisor.

- Stock-based compensation decreased to \$Nil (2012 – \$27,432) calculated using the Black-Scholes option pricing model, as no options were granted during the period.
- Flow-through liability reversed and recorded as a tax recovery of \$64,574 in other items (2012 – \$42,912)

As at December 31, 2013, exploration and evaluation assets totaled \$6,042,282 compared to \$5,909,665 at September 30, 2013.

## Financing

In July 2013, the Company completed three tranches of a private placement totaling 5,669,118 common shares at \$0.17 per share for gross proceeds of \$963,750 and another private placement of 330,000 units at \$0.15 per unit for gross proceeds of \$49,500.

On December 28, 2012, the Company closed a non-brokered private placement for gross proceeds of \$1,500,000. In connection with the private placement, the Company issued an aggregate of 7,894,736 flow-through common shares at a price of \$0.19 per share.

## Summary of Quarterly Results

This table sets forth selected quarterly financial information for each of the last eight quarters:

Three Months Ended	Dec. 31 2013 \$	Sept. 30 2013 \$	June 30 2013 \$	Mar. 31 2013 \$	Dec. 31 2012 \$	Sept. 30 2012 \$	Jun 30 2012 \$	Mar 31 2012 \$
Total revenues	-	-	-	-	-	-	-	-
Net loss and comprehensive loss	(63,854)	(295,198)	(185,585)	(136,222)	(138,048)	(616,132)	(178,598)	(312,173)
Net loss per share – Basic and diluted	-	-	-	-	-	(0.01)	-	(0.01)

Note –The above quarterly results were prepared in accordance with International Financial Reporting Standards (“IFRS”).

## Liquidity

As of December 31, 2013 the Company had working capital of \$826,141 (September 30, 2013 - \$1,022,730) and cash on hand of \$767,765 (September 30, 2013 - \$1,172,787).

This working capital consisted primarily of cash and term deposits less accounts payable and accrued liabilities. The Company has no debt.

The Company had sufficient working capital at December 31, 2013 to meet the obligations of its property option agreements and for general administrative expenses for the next twelve months.

### Capital Resources

The Company has financed its operations primarily by the issuance of share capital. The continued operations of the Company are largely dependent on the sale of equity securities to raise capital.

### Contractual Commitments

Further details of the Company's option payments, share issuances and exploration expenditure commitments are disclosed in note 6 to the Company's December 31, 2013 financial statements.

### Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

### Transactions with Related Party

The Company incurred the following related party transactions during the years ended December 31, 2013 and 2012 and had the following balances with related parties outstanding as at December 31, 2013 and 2012:

- The Company incurred rent of \$12,750 (2012 - \$12,000) to a company controlled by two common directors.

### Key management personnel compensation

	December 31, 2013	December 31, 2012
Administration fees	\$ 22,470	\$ 18,720
Management fees	46,800	46,800
	\$ 69,270	\$ 65,520

### Related party balances

The following amounts due from related parties are included in loans:

	December 31, 2013	September 30, 2013
Current:		
Directors of the Company	\$ 63,902	\$ 62,813

These amounts bear interest at a rate of 3% per annum, are unsecured and repayable in one installment of \$62,500 (\$31,250 per loan), in addition to accrued interest, on each anniversary date, beginning on July 28, 2013. As of December 31, 2013, interest of \$1,089 (September 30, 2013 - \$313) on the loans has been accrued. The loans may be repaid in whole or in any part at any time, without penalty.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.



## **Proposed Transactions**

As is typical of the mineral exploration and development industry, the Company is continually reviewing potential acquisition and joint venture transactions and opportunities that could enhance shareholder value. At present there are no transactions being contemplated by management or the board that would affect the financial condition, results of operations and cash flows, other than in the normal course of the Company's business.

## **Critical Accounting Estimates**

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and exploration costs are capitalized and deferred until such time as the property is put into production, or the property is disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the year. If a property is abandoned, the acquisition and deferred exploration costs will be written off to operations.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

Recorded costs of mineral properties and deferred exploration expenditures are not intended to reflect present or future values of mineral properties. The costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

Management reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property.

The Company measures the cost of the service received for all stock options made to consultants, employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date and expensed as services are rendered. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

## **Financial Instruments and Other Instruments**

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. As of the date hereof, the Company's investment in resource properties has full exposure to commodity risk, both upside and downside. As the metal prices move so does the underlying value of the Company's metal projects.

## **Outstanding Share Data as of the Report Date**

As of February 17, 2014 there is an aggregate of 78,979,754 common shares issued, 20,343,438 warrants at a weighted average exercise price of \$0.29 and 3,890,000 stock options outstanding at a weighted average exercise price of \$0.26.

## **Escrow Shares**

As of February 17, 2014 2,221,800 (September 30, 2013 – 2,221,800) common shares were held in escrow and are to be released from escrow in two equal tranches of 1,110,900 shares every six months commencing February 12, 2014.

## **Risks and Uncertainties**

The Company is subject to a number of risks and uncertainties due to the nature of its business. The Company's exploration and development activities expose the Company to various financial and operational risks that could have a significant impact on its level of operating cash flows in the future. Readers are advised to study and consider risk factors stressed below.

The following are identified as main risk factors that could cause actual results to differ materially from those stated in any forward-looking statements made by, or on behalf of, the Company.

## **Financing**

The Company's future financial success depends on the ability to raise additional capital from the issue of shares or the discovery of properties which could be economically justifiable to develop. Such development could take years to complete and resulting income, if any, is difficult to determine. The sales value of any mineralization potentially discovered by the Company is largely dependent upon factors beyond the Company's control, such as the market value of the products produced.

## **General Resource Exploration Risks and Competitive Conditions**

The resource exploration industry is an inherently risky business with significant capital expenditures and volatile metals markets. The marketability of any minerals discovered may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as market fluctuations, mineral markets and processing equipment, and changes to government regulations, including those relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. This industry is intensely competitive and there is no guarantee that, even if commercial quantities are discovered, a profitable market will exist for their sale. The

Company competes with other junior exploration companies for the acquisition of mineral claims as well for the engagement of qualified contractors. Metal prices have fluctuated widely in recent years, and they are determined in international markets over which the Company has no influence.

### **Governmental Regulation**

Regulatory standards continue to change, making the review process longer, more complex and therefore more expensive. Exploration and development on the Company's properties are affected by government regulations relating to such matters as environmental protection, health, safety and labour, mining law reform, restrictions on production, price control, tax increases, maintenance of claims, and tenure. There is no assurance that future changes in such regulations couldn't result in additional expenses and capital expenditures, decreasing availability of capital, increased competition, reserve uncertainty, title risks, and delays in operations. The Company relies on the expertise and commitment of its management team, advisors, employees and contractors to ensure compliance with current laws.

### **Approval**

The Board of Directors of Comstock Metals Ltd. has approved the contents of this Management Discussion and Analysis.

### **Additional Information**

Additional information concerning the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company website at [www.comstock-metals.com](http://www.comstock-metals.com)

### **Cautionary Note Regarding Forward Looking Statements**

*This MD&A includes some statements that may be considered "forward-looking statements". All statements in this discussion that address the Company's expectations about future exploration and development are forward-looking statements. Although the Company believes the expectations presented in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration successes, availability of capital and financing, and general economic, market, and business conditions. Readers are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.*