

Comstock Mining Inc.
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2011

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 No. 000-32429

(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| NEVADA | 1040 | 65-0955118 |
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

P.O. Box 1118
Virginia City, NV 89440
(Address of principal executive offices)
(775) 847-5272

(Registrant's telephone number, including area code)

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 definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares of Common Stock, \$0.000666 par value, of the registrant outstanding at November 14, 2011 was 28,202,752.

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Statement Regarding Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. All statements contained in this report on Form 10-Q, other than statements of historical facts, are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements about matters such as: future prices and sales of and demand for our products; future industry market conditions; future changes in our production capacity and operations; future production, operating and overhead costs; operational and management restructuring activities (including implementation of methodologies and changes in the board of directors); future employment and contributions of personnel; tax and interest rates; capital expenditures and their impact on us; nature and timing of restructuring charges and the impact thereof; productivity, business process, rationalization, restructuring, investment, acquisition, consulting, operational, tax, financial and capital projects and initiatives; contingencies; environmental compliance and changes in the regulatory environment; offerings, sales and other actions regarding debt or equity securities; and future working capital, costs, revenues, business opportunities, debt levels, cash flows, margins, earnings and growth. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “plan,” “should,” “intend,” “may,” “will,” “would,” similar expressions identify forward-looking statements, but are not the exclusive means of doing so.

These statements are based on assumptions and assessments made by our management in light of their experience and their perception of historical and current trends, current conditions, possible future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees, representations or warranties and are subject to risks and uncertainties that could cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements. Some of those risks and uncertainties include the risk factors set forth in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and the following: global economic and capital markets uncertainty; the speculative nature of gold or mineral exploration, including risks of diminishing quantities or grades of qualified resources and reserves; operational or technical difficulties in connection with exploration or mining activities; contests over our title to properties; potential inability to obtain requisite permits or zoning clearance; potential inability to continue to comply with government regulations and / or listing requirements; adoption of or changes in legislation or regulation adversely affecting our business opportunities that may be presented to or pursued by us; deficiencies in our internal controls; changes in the United States or other monetary or fiscal policies or regulations; interruptions in our production capabilities due to unexpected equipment failures; fluctuation of prices for gold or certain other commodities (such as silver, copper, diesel fuel and electricity); changes in generally accepted accounting principles; geopolitical events; potential inability to implement our business strategies; potential inability to commence production; potential inability to grow revenues organically; potential inability to attract and retain key personnel; interruptions in delivery of critical supplies and equipment, raw materials due to credit or other limitations imposed by vendors; assertion of claims, lawsuits and proceedings against us; and work stoppages or other labor difficulties. Occurrence of such events or circumstances could have a material adverse effect on our business, financial condition, results of operations or cash flows or the market price of our securities. All subsequent written and oral forward-looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. All forward-looking statements included in this report are based on information available to us as of the filing date of this report. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| ASSETS | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 12,957,566 | \$ 25,383,309 |
| Available-for-sale securities | 2,950,348 | 4,410,237 |
| Prepaid expenses and other current assets | 606,270 | 2,042,276 |
| Total current assets | 16,514,184 | 31,835,822 |
| MINERAL RIGHTS AND PROPERTIES, PLANT AND EQUIPMENT, Net | 8,972,307 | 4,224,597 |
| RECLAMATION BOND DEPOSIT | 721,748 | 721,748 |
| RETIREMENT OBLIGATION ASSET | 307,896 | 339,357 |
| OTHER ASSETS | 54,225 | - |
| TOTAL ASSETS | \$ 26,570,360 | \$ 37,121,524 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 1,607,645 | \$ 819,817 |
| Accrued expenses | 3,938,337 | 3,977,369 |
| Long-term debt obligations – current portion | 53,567 | 771,530 |
| Total current liabilities | 5,599,549 | 5,568,716 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt obligations | 1,013,773 | 680,881 |
| Derivative liability - contingent dividend payment | 1,995,100 | 4,873,192 |
| Long-term reclamation liability | 1,403,185 | 1,332,730 |
| Total long-term liabilities | 4,412,058 | 6,886,803 |
| Total liabilities | 10,011,607 | 12,455,519 |
| COMMITMENTS AND CONTINGENCIES (Note 12) | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$.000666 par value, 3,950,000,000 shares authorized, 28,002,349 and 21,154,663 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | 18,650 | 14,089 |
| Convertible Preferred Stock; 50,000,000 shares authorized 7.5% Series A-1 convertible preferred stock; \$.000666 par value, 1,500,000 shares authorized, 21,775 shares issued and outstanding | | |

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| | | |
|--|---------------------|---------------------|
| at September 30, 2011 and December 31, 2010 | 15 | 15 |
| 7.5% Series A-2 convertible preferred stock, \$.000666 par value, 250,000 shares authorized, 6,672 and 8,382 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | 4 | 5 |
| 7.5% Series B convertible preferred stock, \$.000666 par value, 600,000 shares authorized, 31,224 and 35,749 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | 21 | 24 |
| Additional paid-in capital | 140,898,376 | 139,906,683 |
| Accumulated deficit | (124,358,313) | (115,254,811) |
| Total stockholders' equity | 16,558,753 | 24,666,005 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$26,570,360 | \$37,121,524 |

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended September 30, | |
|--|-------------------------------------|----------------|
| | 2011 | 2010 |
| REVENUE - HOTEL | \$ 179,071 | \$— |
| COST AND EXPENSES | | |
| Hotel operating costs | 219,159 | — |
| Depreciation and amortization | 54,837 | 31,828 |
| Reclamation, exploration and test mining expenses | 2,256,590 | 570,616 |
| General and administrative | 1,007,832 | 583,156 |
| Consultants and professional fees | 273,461 | 471,824 |
| Total cost and expenses | 3,811,879 | 1,657,424 |
| LOSS FROM OPERATIONS | (3,632,808) | (1,657,424) |
| OTHER INCOME (EXPENSE) | | |
| Change in fair value of debt beneficial conversion feature | — | (15,939,913) |
| Change in fair value of warrants | — | (1,391,826) |
| Change in fair value of contingent dividend payment | 1,661,584 | — |
| Interest expense | (14,494) | (1,093,831) |
| Interest income | 11,304 | — |
| Total other income (expense), net | 1,658,394 | (18,425,570) |
| NET LOSS | (1,974,414) | (20,082,994) |
| DIVIDENDS ON CONVERTIBLE PREFERRED STOCK | (1,156,150) | — |
| NET LOSS AVAILABLE TO COMMON SHAREHOLDERS | \$(3,130,564) | \$(20,082,994) |
| Net loss per common share – basic | \$(0.12) | \$(1.05) |
| Net loss per common share – diluted | \$(0.12) | \$(1.05) |
| Weighted average common shares outstanding — basic | 25,306,243 | 19,169,218 |
| Weighted average common shares outstanding — diluted | 25,306,243 | 19,169,218 |

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------------|
| | 2011 | 2010 |
| REVENUE - HOTEL | \$299,246 | \$— |
| COST AND EXPENSES | | |
| Hotel operating costs | 319,154 | — |
| Depreciation and amortization | 122,119 | 178,884 |
| Reclamation, exploration and test mining expenses | 7,492,079 | 2,331,869 |
| General and administrative | 3,302,356 | 1,535,503 |
| Consultants and professional fees | 1,147,698 | 855,673 |
| Total cost and expenses | 12,383,406 | 4,901,929 |
| LOSS FROM OPERATIONS | (12,084,160) | (4,901,929) |
| OTHER INCOME (EXPENSE) | | |
| Change in fair value of debt beneficial conversion feature | — | (16,793,767) |
| Change in fair value of warrants | — | (2,056,449) |
| Change in fair value of contingent dividend payment | 2,878,092 | — |
| Interest expense | (38,869) | (3,014,408) |
| Interest income | 65,354 | — |
| Gain on sale of mineral rights | — | 300,000 |
| Other, net | — | (169,247) |
| Total other income (expense), net | 2,904,577 | (21,733,871) |
| LOSS BEFORE INCOME TAXES | (9,179,583) | (26,635,800) |
| INCOME TAX BENEFIT | 76,081 | — |
| NET LOSS | (9,103,502) | (26,635,800) |
| DIVIDENDS ON CONVERTIBLE PREFERRED STOCK | (3,585,929) | — |
| NET LOSS AVAILABLE TO COMMON SHAREHOLDERS | \$(12,689,431) | \$(26,635,800) |
| Net loss per common share – basic | \$(0.54) | \$(1.41) |
| Net loss per common share – diluted | \$(0.54) | \$(1.41) |
| Weighted average common shares outstanding — basic | 23,400,424 | 18,907,926 |
| Weighted average common shares outstanding — diluted | 23,400,424 | 18,907,926 |

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------------|
| | 2011 | 2010 |
| OPERATING ACTIVITIES: | | |
| Net loss | \$(9,103,502) | \$(26,635,800) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 122,119 | 178,884 |
| Gain on sale of mineral rights | — | (300,000) |
| Stock, warrants, and stock-based compensation and services | 2,592,091 | 117,183 |
| Accretion of reclamation liability | 70,455 | 419,280 |
| Deferred income taxes | (76,081) | — |
| Interest paid through the issuance of common stock | — | 446,913 |
| Payments through the issuance of common stock | — | 34,000 |
| Amortization of debt issuance costs | — | 169,247 |
| Net change in derivative fair values | (2,878,092) | 18,850,216 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | (133,248) | (91,764) |
| Accounts payable | 35,596 | 27,059 |
| Accrued expenses | (43,763) | 2,255,307 |
| NET CASH USED IN OPERATING ACTIVITIES | (9,414,425) | (4,529,475) |
| INVESTING ACTIVITIES: | | |
| Proceeds from maturity of available-for-sale securities | 3,664,889 | — |
| Purchase of available-for-sale securities | (2,205,000) | — |
| Purchase of mineral rights and properties, plant and equipment | (3,202,077) | (329,107) |
| Acquisition of Gold Hill Hotel | (500,000) | — |
| Proceeds from sale of mineral rights and properties, plant and equipment | — | 520,000 |
| NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | (2,242,188) | 190,893 |
| FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt obligations and convertible debentures | (769,130) | (504,998) |
| Proceeds from the issuance of convertible debentures | — | 4,700,000 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (769,130) | 4,195,002 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (12,425,743) | (143,580) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 25,383,309 | 246,214 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$12,957,566 | \$102,634 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| INCOME TAXES PAID | \$— | \$— |
| INTEREST PAID | \$23,747 | \$55,475 |

(Continued)

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COMSTOCK MINING INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------|
| | 2011 | 2010 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Conversion of Series A-2 and Series B convertible preferred stock to common stock (par value) | \$3,575 | \$— |
| Dividends paid in common stock (par value) | 783 | — |
| Issuance of common stock for convertible debenture principal | — | 835,483 |
| Issuance of common stock for convertible debenture interest | — | 446,913 |
| Issuance of common stock for services | 996,250 | — |
| Long-term debt obligation for Gold Hill Hotel acquisition | 340,000 | — |
| Long-term debt obligation for purchase of land and buildings | 44,059 | 725,000 |
| Mineral rights and properties, plant, and equipment purchases in accounts payable | 752,232 | — |

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (UNAUDITED)

1. Interim Financial Statements

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. The Company has net losses from operations and had no mining revenue for the nine months ended September 30, 2011. The Company had hotel revenue of \$299,246 for the nine months ended September 30, 2011. For the nine months ended September 30, 2011, the Company incurred a net loss of \$9,103,502 and used cash in operations of \$9,414,425. As of September 30, 2011, the Company has cash and cash equivalents and available-for-sale securities of \$15,907,914. The accompanying consolidated financial statements are presented on a going concern basis, and the Company's ability to continue as a going concern is dependent upon transitioning into production and achieving profitable operations and/or raising additional funds as needed.

There were no components of comprehensive loss other than net loss for the three and nine months ended September 30, 2011 and 2010.

2. Available-for-Sale Securities

Available-for-sale securities at September 30, 2011 and December 31, 2010 consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|--|--------------------------|-------------------------|
| FDIC insured certificates of deposit maturing in less than 12 months | \$2,215,348 | \$2,940,128 |
| FDIC insured certificates of deposit maturing in more than 12 months | 735,000 | 1,470,109 |
| Total | \$2,950,348 | \$4,410,237 |

At September 30, 2011 and December 31, 2010, the carrying value of the available-for-sale securities approximates fair value.

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at September 30, 2011 and December 31, 2010 consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|---|--------------------------|-------------------------|
| Prepaid leases | \$ 112,219 | \$ 1,708,060 |
| Other prepaid expenses and current assets | 494,051 | 334,216 |
| Total | \$ 606,270 | \$ 2,042,276 |

4. Long-Term Reclamation Liability and Retirement Obligation Asset

We have accrued a long-term liability of \$1,403,185 and \$1,332,730 as of September 30, 2011 and December 31, 2010, respectively, for our obligation to reclaim our mine facility based on our 2008 reclamation plan submitted and approved by the Nevada State Environmental Commission and Division of Environmental Protection.

Following is a reconciliation of the aggregate retirement liability associated with our reclamation plan for the Comstock Mine Project for the nine months ended September 30, 2011 and September 30, 2010:

| | 2011 | 2010 |
|---|--------------|--------------|
| Long-term reclamation liability — beginning of period | \$ 1,332,730 | \$ 1,186,966 |
| Additional obligations incurred | - | 58,446 |
| Accretion of reclamation liability | 70,455 | 64,116 |
| Long-term reclamation liability — end of period | \$ 1,403,185 | \$ 1,309,528 |

Following is a reconciliation of the aggregate retirement obligation asset associated with our reclamation plan for the Comstock Mine Project for the nine months ended September 30, 2011 and September 30, 2010:

| | 2011 | 2010 |
|---|------------|------------|
| Retirement obligation asset — beginning of period | \$ 339,357 | \$ 340,159 |
| Additional obligations incurred | - | 58,446 |
| Amortization of retirement obligation asset | (31,461) | (46,632) |
| Retirement obligation asset — end of period | \$ 307,896 | \$ 351,973 |

We are currently updating the reclamation plan, and accordingly, the reclamation liability and retirement obligation asset may increase upon finalization of such plan and upon disturbances of mining properties. With this updated plan, we anticipate increasing the related reclamation bond deposit, including for these expansions, by approximately \$2 million - \$4 million in the next nine months. Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs we will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required. Any such increases in future costs could materially impact the amounts charged to earnings for reclamation and remediation.

5. Accrued Expenses

Accrued expenses at September 30, 2011 and December 31, 2010 consisted of the following:

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| | September 30, 2011 | December 31, 2010 |
|-----------------------------|--------------------------|-------------------------|
| Tax indemnification accrual | \$3,861,340 | \$3,861,340 |
| Other accrued expenses | 76,997 | 116,029 |
| Total | \$3,938,337 | \$3,977,369 |

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6. Long-Term Debt Obligations

Long-term debt obligations at September 30, 2011 and December 31, 2010 consisted of the following:

| Note Description | September 30, 2011 | December 31, 2010 |
|---|--------------------------|-------------------------|
| Debt – Note (Obester Property) – Paid in full in 2011 | \$— | \$650,000 |
| Debt – Note (Petrini Property) – Paid in full in 2011 | — | 90,000 |
| Debt – Note (Donovan Property) | 688,942 | 712,411 |
| Debt – Note (Gold Hill Hotel) | 334,666 | — |
| Debt – Note (445 Main Property) | 43,732 | — |
| Subtotal | 1,067,340 | 1,452,411 |
| Less current portion | (53,567) | (771,530) |
| Long-term portion of long-term debt obligations | \$1,013,773 | \$680,881 |

7. Acquisition of Gold Hill Hotel

On May 1, 2011, we acquired 100% of the equity interests of the historic Gold Hill Hotel and five related cottages on or near the hotel property for \$840,000 consisting of a \$500,000 cash payment and the issuance of a \$340,000 seller's note. The Gold Hill Hotel is a historic site and is recognized as one of Nevada's oldest hotels established in 1859 during Nevada's gold rush. The strategic purpose of purchasing the Hotel was to participate in the on-going economic development of Gold Hill and Virginia City. The seller's note assumed in the acquisition bears interest of four and one half percent (4.5%) per annum and has a term of 15 years. Interest and principal payments shall be made in monthly installments of \$2,601 with the final payment due on or before April 30, 2026. We are in the process of finalizing our valuation of certain tangible and intangible assets and residual goodwill acquired in the transaction. We intend to complete the purchase price allocation associated with the Gold Hill Hotel acquisition, no later than one year from the date of acquisition. The purchase price allocation may change as more defined analyses are completed and additional information about the fair value of assets and liabilities becomes available. The purchase price was preliminarily allocated as follows:

Assets acquired:

| | |
|---------------------------|------------|
| Current assets | \$ 26,587 |
| Land | 170,000 |
| Building and improvements | 530,000 |
| Furniture and fixtures | 140,000 |
| Other assets | 54,225 |
| Total assets acquired | 920,812 |
| Liabilities assumed: | |
| Accrued expenses | (4,731) |
| Deferred tax liability | (76,081) |
| Net assets acquired | \$ 840,000 |

Goodwill arising from the acquisition was not significant. After consideration of the tax allocation and the projected results and available taxable differences from the acquisition of the hotel, the Company reduced its estimate of the valuation allowance associated with this deferred tax asset and recorded an income tax benefit of approximately \$76,000 for the nine months ended September 30, 2011.

We have included the Gold Hill Hotel's results of operations in both our hospitality segment and our condensed consolidated results of operations from the date of acquisition. Our condensed consolidated financial statements for

the three and nine month periods ended September 30, 2011 reflect revenues subsequent to the acquisition date of \$179,071 and \$299,246, respectively, related to the Gold Hill Hotel acquisition. Pro forma disclosures of Gold Hill Hotel's results of operations for periods prior to the date of acquisition are not presented herein as they were not material when compared with our condensed consolidated statements of operations.

8. Stockholders' Equity

The Company has three different series of preferred stock outstanding as described below.

Series A-1 Convertible Preferred Stock

Each share of the Series A-1 convertible preferred stock has a stated value of \$1,000 per share and is convertible, at the holder's election, into 1,536 shares of common stock at a conversion price of \$0.651 per share. Each share is also entitled to a liquidation and change of control preference equal to the stated value plus any accrued and unpaid dividends and any other fees outstanding. Each share of Series A-1 is entitled to five times the number of votes per share of common stock into which it can be converted. On August 8, 2011, the Company entered into a consent (the "Consent") with the holders of the Series A-1 convertible preferred stock and DWC Resources, Inc. Pursuant to the terms of the Consent, the Company and the other parties agreed to extend the due dates by which a registration statement will be filed with respect to common shares underlying the Series A-1 convertible preferred stock, and waive certain rights thereto.

Series A-2 Convertible Preferred Stock

Each share of the Series A-2 convertible preferred stock has a stated value of \$1,000 per share and is convertible, at the holder's election, into 1,536 shares of common stock at a conversion price of \$0.651 per share. Each share is also entitled to a liquidation and change of control preference equal to the stated value plus any accrued and unpaid dividends and any other fees outstanding. Each share of Series A-2 convertible preferred stock automatically converts into shares of common stock when the average common stock price exceeds \$4.50 per share (for at least 20 trading days during any consecutive 30-trading day period), as adjusted for stock splits and similar transactions. In the event that the Series A-2 convertible preferred stock is automatically converted prior to the third anniversary of the issuance of the Series A-2 convertible preferred stock, the holders of the Series A-1 convertible preferred stock and the Series A-2 convertible preferred stock will be entitled to a payment equal to the then net present value of the future dividend payments such holders would have received up until the third anniversary of the issuance of the Series A-1 convertible preferred stock and the Series A-2 convertible preferred stock. Each share entitles the holder to vote with the holders of common stock as a single class on all matters submitted to the vote of the common stock (on an as-converted basis).

Series B Convertible Preferred Stock

Each share of the Series B convertible preferred stock has a stated value of \$1,000 per share and is convertible, at the holder's election, into 606 shares of common stock at a conversion price of \$1.65 per share. Each share is also entitled to a liquidation and change of control preference equal to the stated value plus any accrued and unpaid dividends and any other fees outstanding. Each share of Series B convertible preferred stock automatically converts into shares of common stock when the average common stock price exceeds \$4.50 per share (for at least 20 trading days during any consecutive 30-trading day period), as adjusted for stock splits and similar transactions. Each share entitles the holder to vote with the holders of common stock as a single class on all matters submitted to the vote of the common stock (on an as-converted basis). In the event that the Series B convertible preferred stock is automatically converted prior to the third anniversary of the issuance of the Series B convertible preferred stock, the holders of the Series B convertible preferred stock will be entitled to a payment equal to the then net present value of the future dividend payments such holders would have received up until the third anniversary of the issuance of the Series B convertible preferred stock.

The Series A-1, Series A-2, and Series B convertible preferred stock are senior to all other classes of equity of the Company in the event of the liquidation or change of control of the Company and are entitled to semi-annual dividends at a rate of 7.5% per annum, payable in cash, common stock, preferred stock or any combination of the

foregoing, at the Company's option. The Series A-1, Series A-2, and Series B convertible preferred stock also contain provisions providing weighted average anti-dilution protection. As of September 30, 2011, there was approximately \$1.2 million of dividends in arrears ((\$0.05) impact on loss per share for the three month period ended September 30, 2011).

As long as 25% or more of the Series A-1, Series A-2, and Series B convertible preferred stock originally issued is outstanding, the Company will not be permitted, in each case without the consent of the majority of the holders of the Series A-1, Series A-2, and Series B convertible preferred stock, to execute certain strategic and business decisions, as provided in the related preferred stock documents. The Company is currently restricted from declaring or paying common stock dividends in cash under the terms of its convertible preferred stock.

During the nine month period ended September 30, 2011, the Company declared and issued approximately 1,174,604 shares of common stock in payment of dividends with a fair value of approximately \$3,800,000 on the convertible preferred stock. Additionally in the nine-month period ended September 30, 2011, 1,710 shares of Series A-2 convertible preferred stock and 4,525 shares of Series B convertible preferred stock were converted into 2,625,514 and 2,742,568 shares of common stock, respectively.

On July 1, 2011, the Company's registration statement Form S-3 filed in June 2011 (the "Registration Statement") was declared effective by the Securities and Exchange Commission (the "SEC"). The Registration Statement covers the offer and resale by certain stockholders of the Company of up to 6,325,691 shares of our common stock that are either presently outstanding or that are issuable upon the conversion of currently outstanding Series B convertible preferred stock. The Registration Statement also allows the Company to issue common stock in payment of dividends on our presently issued and outstanding convertible preferred stock or for other offers or sale by us up to \$25,000,000. The Company may offer and sell to the public any of such shares that are not issued in payment of such dividends. Such shares may be offered and sold from time to time, in one or more offerings, in amounts, at prices and on terms to be determined at the time of sale and set forth in an accompanying prospectus supplement and other offering materials.

In October 2010, the Company issued 862.5 shares of Series A-1 convertible preferred stock valued at approximately \$2,128,000 to Northern Comstock, LLC ("Northern Comstock"), a related party of the Company, in prepayment of an annual mineral rights lease pursuant to the Northern Comstock LLC operating agreement. At December 31 2010, of the total fair value of the convertible preferred stock issued, approximately \$419,000 was expensed as an equity-based payment to non-employees for the amount earned in 2010, and the remaining fair value of approximately \$1,708,000 was recorded as a prepaid to be amortized over the remaining period of the mineral rights lease. For the three and nine month period ended September 30, 2011, approximately \$532,000 and \$1,596,000, respectively, of the prepaid has been amortized and expensed as an equity-based payment to non-employees for the amount earned in 2011.

On October 10, 2011, the Company entered into the consent with the holders of the Series A-1 convertible preferred stock and DWC Resources, Inc. Pursuant to the terms of the Consent, the Company and the other parties agreed to extend the due dates by which a registration statement will be filed with respect to common shares underlying the Series A-1 convertible preferred stock, and waive certain rights related thereto.

9. Fair Value Measurements

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the party's own credit risk

Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities at September 30, 2011, measured at fair value on a recurring basis:

| | Total | Fair Value Measurements at September 30, 2011 | | |
|--|-------------|---|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Certificates of deposit | \$2,950,348 | \$— | \$2,950,348 | \$— |
| Liabilities: | | | | |
| Derivative liability - contingent dividend | 1,995,100 | — | — | 1,995,100 |
| Total Assets and Liabilities | 4,945,448 | \$— | \$2,950,348 | \$ 1,995,100 |

The following table presents our assets and liabilities at December 31, 2010, measured at fair value on a recurring basis:

| | Total | Fair Value Measurements at December 31, 2010 | | |
|--|-------------|--|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Certificates of deposit | \$4,410,237 | \$— | \$ 4,410,237 | \$— |
| Liabilities: | | | | |
| Derivative liability - contingent dividend | 4,873,192 | — | — | 4,873,192 |
| Total Assets and Liabilities | \$9,283,429 | \$— | \$ 4,410,237 | \$ 4,873,192 |

Following is a description of the valuation methodologies used for the Company's financial instruments measured at fair value on a recurring basis as well as the general classification of such instruments pursuant to the valuation hierarchy.

Certificates of Deposit — To estimate the fair value of certificates of deposit, cash flows are evaluated and then discounted using the appropriate market rates for the applicable maturities. The certificates of deposit are classified

within Level 2 of the valuation hierarchy as valuation inputs are primarily based on observable market-based inputs.

Derivatives —The Company's derivative instrument is valued using models with various unobservable market inputs and classified as Level 3 in the valuation hierarchy. These unobservable market inputs include derived volatility, stock price, expected life, and probability of conversion.

The carrying amount of cash and cash equivalents and accounts payable approximates fair value because of the short-term maturity of these financial instruments. The fair value of long-term debt obligations approximates carrying value at September 30, 2011.

The following table indicates the changes in the level 3 financial instruments for the three months ended September 30, 2011 and 2010:

| | Contingent Dividend Payment on Convertible Preferred Stock | Convertible Debenture Beneficial Conversion Feature | Warrants |
|---|---|---|--------------|
| Balance at June 30, 2011 | \$ 3,656,684 | \$ - | \$ - |
| Change in fair value | (1,661,584) | - | - |
| Balance at September 30, 2011 | \$ 1,995,100 | \$ - | \$ - |
| Balance at June 30, 2010 | \$ - | \$ 4,730,090 | \$ 2,865,120 |
| Issuance of convertible debentures and warrants | - | 1 | - |
| Change in fair value | - | 15,939,912 | 1,391,826 |
| Balance at September 30, 2010 | \$ - | \$ 20,670,003 | \$ 4,256,946 |

The following table indicates the changes in the level 3 financial instruments for the nine months ended September 30, 2011 and 2010:

| | Contingent Dividend Payment on Convertible Preferred Stock | Convertible Debenture Beneficial Conversion Feature | Warrants |
|---|---|---|--------------|
| Balance at January 1, 2011 | \$ 4,873,192 | \$ - | \$ - |
| Change in fair value | (2,878,092) | - | - |
| Balance at September 30, 2011 | \$ 1,995,100 | \$ - | \$ - |
| Balance at January 1, 2010 | \$ - | \$ 2,744,059 | \$ 1,756,130 |
| Issuance of convertible debentures and warrants | - | 1,132,178 | 444,367 |
| Change in fair value | - | 16,793,766 | 2,056,449 |
| Balance at September 30, 2010 | \$ - | \$ 20,670,003 | \$ 4,256,946 |

10. Segment Reporting

Our management organizes the Company into two operating segments, mining and hospitality. Our mining segment consists of exploration and developmental drilling, mine planning, permitting, mineral claims, plus all other activities and expenditures associated with bringing the mine into production. Our hospitality segment consist of hotel rooms, cottages, restaurant, bar and other services provided by Gold Hill Hotel Inc. We evaluate the performance of our operating segments based on operating income (loss). All intercompany transactions have been eliminated, and intersegment revenues are not significant. Financial information relating to our reportable operating segments and reconciliation to the condensed consolidated totals is as follows:

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | | | | |
| Mining | \$ - | \$ - | \$ - | \$ - |
| Hospitality | 179,071 | - | 299,246 | - |
| Total revenues | 179,071 | - | 299,246 | - |
| Operating Loss | | | | |
| Mining | (3,592,720) | (1,657,424) | (12,064,252) | (4,901,929) |
| Hospitality | (40,088) | - | (19,908) | - |
| Total loss from operations | \$ (3,632,808) | \$ (1,657,424) | \$ (12,084,160) | \$ (4,901,929) |

As of September 30, 2011, consolidated total assets included approximately \$1.1 million in hospitality segment assets related to the Gold Hill Hotel.

11. Net Loss Per Common Share

Basic earnings per share are computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if stock options, warrants, and convertible securities to issue common stock were exercised or converted into common stock. For the three and nine month periods ended September 30, 2011 and 2010, no common stock equivalent shares were included in the computation of diluted loss per share because the Company has a net loss and the inclusion of such shares would be antidilutive. The following is a reconciliation of the numerator and denominator used in the basic and diluted computation of net loss per share:

| | Three months ended September, 30 | | Nine months ended September, 30 | |
|--|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Numerator: | | | | |
| Net loss | \$(1,974,414) | \$(20,082,994) | \$(9,103,502) | \$(26,635,800) |
| Preferred stock dividends | (1,156,150) | — | (3,585,929) | — |
| Loss available to common shareholders | \$(3,130,564) | \$(20,082,994) | \$(12,689,431) | \$(26,635,800) |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 25,306,243 | 19,169,218 | 23,400,424 | 18,907,926 |
| Effect of dilutive securities | — | — | — | — |
| Diluted weighted average shares outstanding | 25,306,243 | 19,169,218 | 23,400,424 | 18,907,926 |
| Net loss per common share: | | | | |
| Basic | \$(0.12) | \$(1.05) | \$(0.54) | \$(1.41) |
| Diluted | \$(0.12) | \$(1.05) | \$(0.54) | \$(1.41) |

The following table includes the number of common stock equivalent shares that are not included in the computation of diluted loss per share, because the Company has a net loss and the inclusion of such shares would be antidilutive.

| | September 30, | |
|------------------|---------------|------------|
| | 2011 | 2010 |
| Convertible debt | — | 20,670,003 |

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| | | |
|-----------------------------|------------|------------|
| Stock options | 450,000 | 900,000 |
| Convertible preferred stock | 62,621,580 | — |
| Warrants | 2,333,500 | 3,728,332 |
| | 65,405,080 | 25,298,335 |

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12. Commitments and Contingencies

The Company has minimum lease obligations with certain of its mineral properties and leases. Minimum lease payments payable are \$62,600 per year in 2011, increasing by \$5,000 per year through 2015. For most of the mineral properties and leases, the Company is subject to a wide range of royalty obligations once production commences. Certain factors that will influence the amount of the royalties include ounces extracted and prices of gold.

The Company was notified in 2009 of its selection for audit by the United State Environmental Protection Agency (“EPA”). The audit was classified under the EPA’s Toxic Release Inventory (“TRI”) program. The Company engaged an outside consultant, to assist it in managing the EPA audit as well as the Company’s TRI reporting requirements. We have submitted all required reports for all periods under audit and believe the reporting for these periods are now in compliance. The audit may determine that the Company was not in compliance with the TRI reporting requirements and, as a result, the EPA may take action against the Company, including the imposition of fines and penalties or other enforcement action, based on the results of the audit. The Company believes it has since complied with these reporting requirements and does not believe this action or any possible penalties would be material to the consolidated operations or cash flows of the Company.

The Company has engaged outside third parties to construct, refurbish and upgrade its processing plant and refinery and entered into certain heavy equipment purchase agreements. The costs are expected to approximate \$8.0 million which will be paid and capitalized as the assets are constructed. As of September 30, 2011, approximately \$2.5 million has been paid and capitalized as construction in progress within mineral rights and properties, plant and equipment in the condensed consolidated balance sheets.

From time to time, we are involved in lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. There are no matters pending that we expect to have a material adverse impact on our business, financial condition, results of operations, or cash flows.

13. Stock-Based Compensation

On June 23, 2011, stockholders of the Company voted to approve the Comstock Mining Inc. 2011 Equity Incentive Plan (the “Plan”). The Plan replaced the equity plans previously adopted by the Company, including, without limitation, those adopted in 2005 and 2006. The maximum number of shares of the Company’s common stock that may be delivered pursuant to awards granted under the Plan is 6,000,000 shares of common stock. Awards may be made under the Plan in the form of options (incentive stock options or nonqualified stock options), stock grants (whether or not subject to restrictions) and other stock based awards (which would include stock appreciation rights, stock units and dividend equivalents, among others), or any combination of the foregoing. As of September 30, 2011, no awards have been granted under the Plan and the Company has not recorded any expenses related to the Plan. All executive officers, employees and directors are eligible to participate in the Plan subject to specific performance criteria to be established by the Compensation Committee of the Board of Directors of the Company.

During the quarter ended June 30, 2011, the outside directors of the Company were granted 300,000 shares of the Company’s common stock valued at \$980,000. The shares were immediately vested and the related stock-based compensation has been recorded as a \$980,000 general and administrative expense in the accompanying condensed consolidated statement of operations for the nine month period ended September 30, 2011.

14. Subsequent Events

On October 7, 2011, the Company exercised its purchase option on the “Dondero” property (previously announced in 2009) in Lyon County, Nevada just south and contiguous to the Company’s “Dayton” resource area. The property

consists of 84.05 acres of mining patents and surface lots. The Company paid \$710,000 consisting of \$280,000 in cash and \$430,000 in common stock (192,600 shares).

On October 20, 2011, the Company issued an additional 862.5 shares of Series A-1 convertible preferred stock to Northern Comstock in prepayment of the annual mineral rights lease pursuant to the Northern Comstock operating agreement.

From October 1, 2011 through November 14, 2011, the Company converted 17 shares of convertible preferred stock into 10,303 common shares. Common shares and convertible preferred shares outstanding at November 14, 2011, totaled 28,202,752 and 60,516, respectively.

Effective October 17, 2011, the Company elected to exercise its option to purchase the Dayton, effectively purchasing the 4 patented lode claims totaling 95 acres known as the "Dayton." These mineral claims are contiguous with our Spring Valley mineral holdings. The purchase price is \$3,000,000 plus a 3% NSR. In addition, the NSR will be reduced by 75% until the Company receives credit through the reduction of NSR for the \$3,000,000 purchase price. The revised agreement calls for a \$500,000 upfront payment in two installments, \$50,000 in November 2011, and \$450,000 in January 2012. The seller will finance \$2,500,000 with a 0% interest seller's note. The note will be payable with equal quarterly installments of \$50,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion provides information that we believe is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. It should be read in conjunction with the consolidated financial statements and accompanying notes also included in this 10-Q and our Annual Report on Form 10-K as of and for the fiscal year ended December 31, 2010.

The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the nine months ended September 30, 2011, as well as our future results.

Overview

The Company is a Nevada-based, gold and silver mining company with extensive, contiguous property in the historic Comstock District. The Company began acquiring properties and developing projects in the Comstock District in 2003. Since then, the Company has consolidated a substantial portion of the Comstock District, secured permits, built an infrastructure and brought the exploration project into test mining production. The Company produced over 12,000 ounces of gold and over 53,000 ounces of silver from 2004-2006, at our existing heap leach processing facilities. Our test mining activities were concluded in January 2007, when based on our longer-term production plans, we prioritized land consolidation and mine planning.

We continue acquiring additional properties in the Comstock District, expanding our footprint and creating opportunities for exploration and mining. The Company now owns or controls approximately 6,099 acres of mining claims in the Comstock District. The acreage is comprised of 999 acres of patented claims (private lands) and 5,100 acres of unpatented claims on land administered by the US Bureau of Land Management ("BLM"). The Company also owns a heap leach processing facility that is being redesigned to accommodate our new production plans.

Exploration and Mine Development

Our strategic plan calls for additional infill drilling and metallurgical testing prior to the resumption of mining. The information from these drill programs is being used in the development of a detailed mine design for reopening the mine, fine-tuning our mineral processing procedures to maximize gold and silver recovery and updating our global mineralized material estimates.

On September 30, 2011, the Company announced the cumulative results of exploration, metallurgical and mine development activities through its third National Instrument 43-101 technical report (the "NI Report") delivered to the Company by Behre Dolbear & Company (USA) Ltd., during the third quarter of 2011. The full report and highlights of the results of this drilling are available on the Company website, www.comstockmining.com.

The most-recent drill program began October 25, 2010, and continued through August 19, 2011. The substantial majority of the drilling occurred in the first and second quarters of the year. During 2011, infill drilling for mine planning was completed on the Hartford, Lucerne and Justice claims in the Lucerne Resource Area; the second phase of development drilling was completed in the Dayton Resource Area; and the first phase of development drilling was completed on the East-Side target in the Lucerne Resource Area. A total of 133 reverse circulation holes were completed during the quarter, totaling 5,665 feet, using two drill rigs. A total of 374 reverse circulation holes were completed since the drill program's inception, totaling 128,711 feet, using three drill rigs.

We did not drill any additional core holes during the third quarter of 2011. A total of 15 core holes were drilled since the drill program's inception, totaling 3,584 feet. Two of the core holes were in the Dayton Resource Area, two were in the East-Side target, and eleven were for the Lucerne Resource Area starter pit. The core holes were drilled to meet three goals: to twin and confirm the results of specific reverse circulation holes, to provide core for metallurgical testing, and to provide geotechnical information for finalizing the pit slope design.

On October 4, 2011, the Company received unanimous approval from the Storey County Board of Commissioners passing Special Use Permit 2011-016 ("SUP") that grants the Company authorization to further develop its exploration drilling in the southern portion of the county. Under a previous mining permit in the county, the Company is already permitted for its Lucerne starter-mine operation. This approval affirms the unanimous recommendation from the Storey County Planning Commission on August 16, 2011. The SUP also defines operational protocols designed to accommodate the unique nature of the Comstock Historic District. The Company invested significant effort in cooperation with the Storey County Planning Department, the Planning Commission and the greater community to define a number of critical stipulations that prioritize public safety, value community resources and provide additional environmental protections to this uniquely historic mining district.

On October 15, 2011, our permit request for an expanded plan of exploration drilling on our Dayton and Spring Valley Areas, both in Lyon County, was submitted, by the Nevada Department of Environmental Protection, for public hearing scheduled on November 16, 2011. This permit will significantly expand our authorization for exploration drilling in Lyon County. We anticipate final approval of this permit in late 2011.

These two exploration permits provide the approvals required for expanded exploration drilling in Storey and Lyon County for our drilling programs in 2012 and 2013. This provides for the full exploration of our Lucerne, Dayton and Spring Valley Resource and target areas, consistent with our stated strategic objectives for expanding our validated resource.

Production

During the third quarter, the Company announced that it had hired a number of experienced mining professionals. These key additions to our staff brought demonstrated skills and experience, including operations management, mine engineering, and permitting and environmental, which will be invaluable as we prepare for mining production activities in late 2011 or early 2012. On September 1, 2011, the Company announced that Mr. Steven Tucker joined the Company as Senior Mine Planner, and Ms. Cynthia Byrns joined the Company as Director of Environmental and Regulatory Management. Each of these professionals brings over 25 years of experience. Cynthia is our thirteenth new hire this year bringing us to a current total of approximately 30 mining professionals.

The Company has utilized McClelland laboratories to provide base metallurgical testing on samples. The base testing included the bottle roll testing on a multitude of samples representing three different rock types. i.e., Alta-andesite, Rhyolite and -Meta-volcanic. Results of the bottle roll tests indicated favorable gold recoveries utilizing cyanide heap leaching. McClelland then designed and performed column heap leach tests on composites of high and low-grade materials intended to simulate and provide data for the final design of our crushing facility and Merrill-Crowe processing facility. Gold recoveries averaged 72.1% and silver recoveries averaged 47.9% and the facility designs were finalized and ordered.

On May 11, 2011, the Company engaged the Goodfellow Corporation of Boulder City, Nevada to provide a new, two-stage crushing facility, complementing our existing heap leach processing facility in American Flat. The plant will include a primary jaw crusher and a secondary cone crusher, and will be installed by Goodfellow after the Company receives the necessary permits. The new crushing plant will provide the capacity for the Company's initial permitted production rate of 720,000 tons per year, with substantial additional capacity for increased production in the future.

On July 7, 2011, the Company signed an agreement with Scotia International of Nevada, Inc, to refurbish and upgrade our Merrill-Crowe processing plant and refinery. The upgraded plant will provide the capacity to meet our permitted initial production rate of 720,000 tons per year, with growth capacity for increased production rates in the future. Under the terms of the agreement, Scotia will transport existing components of the processing plant to their facility in Salt Lake City, where they will refurbish or upgrade each component, reassemble the plant, and test its operation.

Once all required permits have been received, the facilities will be assembled and operated at our American Flat facility.

On July 13, 2011, the Company received a certificate of occupancy for a new, 36'x60' office building, installed next to our existing office building in American Flat. The new building added much-needed space for our growing professional mining staff.

On July 27, 2011, the Company received its Mercury Operating Permit #AP1041-2690, issued under a new air quality program that is administered by the Nevada Division of Environmental Protection ("NDEP") – Bureau of Air Quality that requires all gold mining companies that use thermal processes for gold recovery to monitor and manage, through engineering controls, any mercury fumes or liquid metal that is derived from the precious metal ore as a by-product. This air permit ensures employee and public safety during the final stages of precious metals recovery. The Comstock ore has very little naturally occurring mercury content relative to many other gold mining operations in Nevada. Issuance of this new permit allows for the construction of a Melt Furnace and a Mercury Retort. This permit is a critical prerequisite for recommencing production. The Company does not use mercury at any time in the processing of gold and silver. All the equipment will be located at our American Flats processing location.

The Company has applied for an Air Quality Permit, primarily associated with our new crushing facilities. This permit, to be issued by the Nevada Division of Environmental Protection ("NDEP"), is required before mining and processing can recommence and will require a public notice period identical to our recently issued Mercury Operating to Construct Permit, making issuance most likely in December. Once issued, the Company has approximately six months of preparatory activities including land clearing, excavation and leveling associated with the installation of the crushing facility, installation of the expanded Merrill Crowe facility and expansion of the heap leach, operating ponds and associated liners.

On October 14, 2011, the Company was granted authorization, through a Notice and Findings Order # 2011-22, to fully construct and line a process solution pond. This pond is a prerequisite for production but also enables compliance with our recently modified Water Pollution Control Permit #NEV 2000109. On October 24, we commenced, with third parties construction contractors, constructing the process solution pond.

The Company's near term production plans include expanding the existing heap leach to a capacity of approximately 4 million tons of capacity. We have accrued a long-term liability of approximately \$1.4 million as of September 30, 2011, for our obligation to reclaim our mine facility based on our 2008 reclamation plan approved by the Nevada State Environmental Commission and Division of Environmental Protection. We are currently updating this three-year plan and anticipate the approval of our 2011 reclamation plan in the first quarter of 2012, including the associated increase in the reclamation bond requirement for the updated plan, including these expansions, estimated at approximately \$2 million - \$4 million.

Corporate

We will continue to increase our footprint in the Comstock District through strategic acquisitions. We consider the historic Comstock district central to our growth strategy. We work collaboratively with federal, state, and local regulatory agencies and zoning boards to ensure that we obtain all permits needed to resume mining.

On August 26, 2011 and August 31, 2011, respectively, the Company acquired a property for \$90,000 consisting of a \$45,941 cash payment and a \$44,059 long-term debt obligation and a property for \$150,000 cash payment. These properties were part of the hospitality segment.

On October 7, 2011, the Company exercised its purchase option on the “Dondero” property (previously announced in 2009) in Lyon County, Nevada just south and contiguous to the Company’s “Dayton” resource area. The property consists of 84.05 acres of mining patents and surface lots. The Company paid \$710,000 consisting of \$280,000 in cash and \$430,000 in common stock (192,600 shares).

During the nine month period ended September 30, 2011, 1,710 shares of Series A-2 convertible preferred stock and 4,525 shares of Series B convertible preferred stock were converted into 2,625,514 and 2,742,568 shares of common stock, respectively. Subsequent to September 30, 2011, and through November 14, 2011, preferred shareholders converted 17 shares of convertible preferred stock into 10,303 common shares. Common shares and convertible preferred shares outstanding at November 14, 2011, totaled 28,202,752 and 60,516, respectively.

Effective October 17, 2011, the Company elected to exercise its option to purchase the Dayton, effectively purchasing the 4 patented lode claims totaling 95 acres known as the “Dayton.” These mineral claims are contiguous with our Spring Valley mineral holdings. The purchase price is \$3,000,000 plus a 3% NSR. In addition, the NSR will be reduced by 75% until the Company receives credit through the reduction of NSR for the \$3,000,000 purchase price. The revised agreement calls for a \$500,000 upfront payment in two installments, \$50,000 in November 2011, and \$450,000 in January 2012. The seller will finance \$2,500,000 with a 0% interest seller’s note. The note will be payable with equal quarterly installments of \$50,000.

Comparative Financial Information

Below we set forth a summary of comparative financial information for the three and nine months ended September 30, 2011 and 2010.

Three Months Ended September 30, 2011 and September 30, 2010:

| | Quarter Ended September 30, 2011 | Quarter Ended September 30, 2010 | Difference |
|--|--|--|----------------|
| Revenue - Hotel | \$179,071 | \$- | \$179,071 |
| Hotel operating costs | 219,159 | - | 219,159 |
| Depreciation and amortization | 54,837 | 31,828 | 23,009 |
| Reclamation, exploration and test mining expense | 2,256,590 | 570,616 | 1,685,974 |
| General and administration | 1,007,832 | 583,156 | 424,676 |
| Consulting and professional service fees | 273,461 | 471,824 | (198,363) |
| Loss from operations | 3,632,808 | 1,657,424 | 1,975,384 |
| OTHER INCOME (EXPENSE) | | | |
| Derivative change in fair value | 1,661,584 | (17,331,739) | 18,993,323 |
| Interest income | 11,304 | - | 11,304 |
| Interest expense | (14,494) | (1,093,831) | 1,079,337 |
| Net loss | \$1,974,414 | \$20,082,994 | \$(18,108,580) |

On May 1, 2011, we acquired the historic Gold Hill Hotel and five related cottages. The Hotel had revenues from the cottages, hotel rooms, restaurant and bar totaling \$179,071 during the quarter ended September 30, 2011. We did not produce or sell any gold or silver at our Comstock project in Nevada during the three months ended September 30, 2011 and September 30, 2010.

Hotel operating costs were \$219,159 for the quarter ended September 30, 2011. There were no hotel operating expenses for the same period in 2010. The \$219,159 represents cost incurred for providing room, restaurant and bar services at the hotel during the quarter ended September 30, 2011.

Reclamation, exploration and test mining expenses increased by approximately \$1.7 million in the third quarter of 2011 when compared to the same quarter in 2010. The increase was primarily caused by expenditures associated with increased reverse circulation development drilling and related metallurgical, assay and mine development activity in and for our Lucerne and Dayton Resource Areas in the third quarter 2011, including higher labor costs related to the expansion of the geological staff.

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General and administrative expenses increased by \$424,676 in the third quarter of 2011 as compared to the third quarter of 2010. This increase resulted primarily from an increase in payroll and the related costs of an increased number of general and administrative employees.

Consulting and professional fees decreased by \$198,363 in the third quarter of 2011 as compared to the third quarter of 2010. This decrease resulted primarily from reduced legal fees.

Derivative changes in fair values decreased by approximately \$19.0 million in the third quarter of 2011, as compared to the third quarter in 2010. This decrease includes \$17.3 million resulting from eliminating the embedded beneficial conversion feature and warrant derivative liabilities in the fourth quarter of 2010, when we exchanged all our convertible debt for equity and also includes a decrease of \$1.7 million in the contingent dividend payment derivative embedded in the preferred stock outstanding during the three months ended September 30, 2011. There was no contingent dividend payment derivative liability outstanding during the three month period ended September 30, 2010.

Interest income totaled \$11,304 for the third quarter of 2011 as compared to \$0 for the third quarter of 2010. Third quarter 2011 interest income originates from the cash and cash equivalents, and available-for-sale securities that were purchased with the proceeds from the issuance of Series B Preferred Stock in the fourth quarter of 2010.

Interest expense decreased approximately \$1.1 million in the third quarter of 2011 as compared to the third quarter of 2010. This decrease resulted from the extinguishment of our senior secured convertible indentures, promissory notes and associated interest obligations totaling \$29.4 million during the fourth quarter of 2010.

Nine Months Ended September 30, 2011 and September 30, 2010:

| | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 | Difference |
|--|---|--|------------|
| Revenue - Hotel | \$299,246 | \$- | \$299,246 |
| Hotel operating costs | 319,154 | - | 319,154 |
| Depletion and amortization | 122,119 | 178,884 | (56,765) |
| Reclamation, exploration and test mining expense | 7,492,079 | 2,331,869 | 5,160,210 |
| General and administration | 3,302,356 | 1,535,503 | 1,766,853 |
| Consulting and professional service fees | 1,147,698 | 855,673 | 292,025 |
| Loss from operations | 12,084,160 | 4,901,929 | 7,182,231 |
| OTHER INCOME (EXPENSE) | | | |
| Gain on sale of mineral rights | - | 300,000 | (300,000) |
| Derivative change in fair value | 2,878,092 | (18,850,216) | 21,728,308 |
| Interest income | 65,354 | - | 65,354 |
| Interest expense | (38,869) | (3,014,408) | 2,975,539 |
| Other, net | - | (169,247) | 169,247 |
| Income tax benefit | 76,081 | - | 76,081 |
| Net loss | \$9,103,502 | | |