Comstock Mining Inc.
Form 10-K
March 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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. 001-35200

(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

(775) 847-5272

(Address, including zip code, and telephone number,

including area code, of registrant's principal executive offices)

Securities Registered pursuant to Section 12(b) of the Act: *Common Stock, par value $.000666 per share*

Securities Registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 x 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 during the preceding 12 months (or for such shorter period of time that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the 21,649,676 shares of voting stock held by non-affiliates of the registrant based on the closing price on the NYSE Amex LLC on June 30, 2011 was $67,113,996.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title of Class	Shares Outstanding March 30, 2012
Common Stock	39,482,791

DOCUMENTS INCORPORATED BY REFERENCE

None

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Statement Regarding Forward-Looking Statements

Certain statements contained in this report on Form 10-K may constitute forward-looking statements within the meaning of applicable securities laws. All statements, other than statements of historical facts, are forward-looking statements. 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 exploration activities, production capacity and operations; future exploration, 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, investment, acquisition, consulting, operational, tax, financial and capital projects and initiatives; contingencies; environmental compliance and changes in the regulatory environment; 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,” “ 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 discussed in Item 1A, “Risk Factors” and the following: global economic and capital market uncertainties; 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 dilution to our stockholders from our recapitalization and balance sheet restructuring activities; potential inability to continue to comply with government regulations and/or listing requirements; adoption of or changes in legislation or regulations adversely affecting our businesses; business opportunities that may be presented to, or pursued by, us; 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 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; potential inability to maintain an effective system of internal controls over financial reporting; potential inability or failure to timely file periodic reports with the SEC; potential inability to maintain our listing of our securities on any securities exchange or market; 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. We undertake no obligation to publicly update or revise any forward-looking statement.

PART I

Item 1. Business

OUR COMPANY

Unless the context otherwise indicates, the terms "Comstock," "we," "us," "our," "our Company" or "the Company" mean Comstock Mining Inc. and its consolidated subsidiaries which includes the Gold Hill Hotel, Inc.

The Company is a Nevada-based, gold and silver mining company with extensive, contiguous property in the historic Comstock and Silver City mining districts (collectively, the "Comstock District"). The Comstock District is located within the western portion of the Basin and Range Providence of Nevada, between Reno and Carson City. The Company was incorporated in Florida in 1999 and reincorporated in Nevada in 2008. 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 its initial exploration projects into test mining. The Company produced over 12,000 ounces of gold and over 53,000 ounces of silver from 2004-2006, from our existing Lucerne mine and American Flat 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 are scheduled to recommence production on the Lucerne Project in 2012.

The goal of our strategic plan is to deliver stockholder value by validating qualified resources (measured and indicated) and reserves (probable and proven) of 3,250,000 gold equivalent ounces by 2013, and commence commercial mining and processing operations with annual production rates of at least 20,000 gold equivalent ounces.

Because of the Comstock District's historical significance, the geology is well known and extensively studied by the Company, our advisors and many independent researchers. We believe that we have amassed the largest known library of historical and current data and detailed surface mapping of Comstock District properties. We use such data in conjunction with our drilling programs to expand our understanding of the Comstock District's structural geology as well as its broader geological footprint.

The Company has drilled 646 reverse circulation ("RC") and core holes, representing over 242,000 feet of drill data in the Lucerne Resource Area. The Company also has 432 RC and core holes, representing over 56,000 feet of drill data drilled by other companies preceding us. The data obtained has furthered our knowledge of the region's mineralization, and provided the information used to develop a mine plan in our Lucerne Resource Area. We also have drill results from 323 RC and core holes, representing over 59,000 feet of drill data in our Dayton Resource Area. In our exploration and development campaigns, all drilling, surface and down-hole surveying, hole abandonment, geologic logging, sampling, and assays were performed to industry-recognized standards.

Our Lucerne Resource Area, the proposed site of our first commercial mining activities, is located in Storey County, Nevada, approximately three miles south of Virginia City, Nevada and 30 miles southeast of Reno, Nevada. The Dayton Resource Area, the proposed site for our second commercial mining activities, is located in Lyon County Nevada, approximately six miles south of Virginia City. Access to the properties is by State Route 342, a paved highway.

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 6,315 acres in the Comstock District. The acreage is comprised of 1,455 acres of patented mining claims and surface parcels (private lands) and 4,860 acres of unpatented claims, administered by the US Bureau of Land Management ("BLM"). The Company also owns a heap leach processing facility that is being redesigned and modified to accommodate our new production plans.

We own and operate the Gold Hill Hotel, three related cottages, two related rental homes and a meeting hall. The Hotel is located in Gold Hill, Nevada between Virginia City and the Comstock mine project.

Strategic Plan

In April 2010, the Board approved a strategic plan designed to restructure and recapitalize the Company, accelerate mine development and production and continue exploration. Since then, we have accomplished all of the following key objectives contemplated by the strategic plan within the time frame contemplated:

- Reorganized management, including the appointment of a new chief executive, vice president of operations, vice president of exploration and mine development, vice president of strategic resource planning, director of environmental and regulatory management, senior mine planner, chief accounting officer and controller;
- Consummated the 200:1 reverse stock split of all common shares outstanding;
- Acquired ownership or control of more than 1,800 acres, leading to substantial increases in the Company's measured, indicated and inferred resources;
- Restructured the balance sheet, including the exchange of approximately $29.4 million of secured convertible indebtedness for convertible preferred equity;
- Completed an equity capital raise of approximately $35.75 million through the issuance of convertible preferred equity;
- Listed the Company's common stock on the NYSE Amex LLC exchange; and
- Obtained the required permits for production and expanded exploration and drilling purposes.

As part of the strategic plan, the Company has scheduled the exploration and development drilling intended to validate mine design and identify qualified resources and reserves with three intermediate objectives of validating measured and indicated resources containing 1,000,000 gold equivalent ounces, 1,500,000 gold equivalent ounces, and 2,000,000 gold equivalent ounces, respectively, and the long term planned objective of 3,250,000 gold equivalent ounces to be achieved in 2013, with an annual run rate of at least 20,000 gold equivalent ounces. The Company has also scheduled the start of production operations in 2012 in the Lucerne mine.

Current Projects

The Company’s headquarters, mine operations and heap leach processing facility are in Storey County, Nevada, at 1200 American Flat Road, approximately three miles south of Virginia City, Nevada and 30 miles southeast of Reno, Nevada. The Company has focused to date on the Lucerne Resource Area (including the East-side target within this Area), the Dayton Resource Area and the Spring Valley exploration target. We also plan on focusing exploration on the Northern Extension, Northern Targets, and Occidental Target Areas subsequent to the exploration and development of Lucerne, Dayton and Spring Valley. The Company’s existing heap leach processing facility for gold and silver will be redesigned and expanded to accommodate new production plans.

The Lucerne Resource Area has been the focus of the Company’s exploration and development efforts since 2007. It includes the previously mined Billie the Kid, Hartford and Lucerne mining claims, and extends northeasterly to the area of the historic Woodville bonanza, and north to the historic Justice and Keystone mines, plus the extension of these areas down-dip to the east. The Company has the key mining permits required to resume mining in that area. The Lucerne Resource Area is approximately 5,000 feet long, with an average width of 600 feet, representing less than three percent of the land holdings controlled by the Company. The East-side target within this Area ranks as one of the Company’s top exploration and potential starter mine production targets.

The Dayton Resource Area lies southwest of Silver City, generally from the Dayton, Kossuth and Alhambra claims, including the old Dayton mine workings, south to where the Kossuth claim crosses State Route 341. The historic Dayton mine was the last major underground mining operation in the Comstock District, before being closed by the War Act in 1942. The Dayton Resource Area ranks as one of the Company's top exploration and potential mine production targets.

The Spring Valley exploration target lies at the southern end of the Comstock District, where the mineralized structures lie mostly concealed beneath a veneer of sediment gravels. The area includes the Kossuth claim south of State Route 341, the Dondero property, the New Daney lode mining claims, and the Company's placer mining claims in Spring Valley and Gold Canyon.

The Northern Extension, Northern Targets and Occidental Areas represent exploration target areas that contain many historic mining operations, including the Overman, Con Imperial, Caledonia, and Yellow Jacket mines, among others. Previous operators have explored the various mines in this area, some of which have led to mineralized material inventories. We believe that our consolidation of the Comstock District has provided us with opportunities to utilize the historical information available to identify drilling targets with significant potential.

Figure-1 Comstock Mining’s Claims in Storey and Lyon Counties, Nevada

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Our Comstock exploration activities included test mining. As defined by the Securities Exchange Commission ("SEC") Industry Guide 7, we have not yet established any proven or probable reserves. Therefore, our activities are considered exploratory in nature.

Employees

As of December 31, 2011, we have 26 full-time and 2 part-time mining employees. We also have 5 full-time and 15 part-time hospitality employees working for the Gold Hill Hotel Inc.

Principal Markets and Segments

We plan to sell our production on world markets at prices established by commodity markets. These prices are not within our control.

We had no revenues in our mining segment and $473,386 in revenues in our hospitality segment during the year ended December 31, 2011. We had operating losses of $15,528,150 and $26,391 in our mining and hospitality segments, respectively, during the year ended December 31, 2011. We had total assets of $25,824,143 and $1,150,009 in our mining and hospitality segments, respectively, as of December 31, 2011. We did not have reporting segments for any period prior to fiscal year 2011. See Note 16 to our audited financial statements.

Government Regulation

Mining operations and exploration activities are subject to various national, state, and local laws and regulations in the United States, which govern prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, protection of the environment, mine safety, hazardous substances, and other matters. We have obtained or have pending applications for substantially all of those licenses, permits, and other authorizations currently required for our exploration and other programs. We believe that we are in compliance in all material respects with applicable mining, health, safety, and environmental statutes and regulations.

Reclamation

We are generally required to mitigate long-term environmental impacts by stabilizing, contouring, resloping, and revegetating various portions of a site after mining and mineral processing operations are completed. These reclamation efforts are conducted in accordance with plans reviewed and approved by the appropriate regulatory agencies.

The Nevada Revised Statutes and regulations promulgated by the Nevada State Environmental Commission and the Nevada Division of Environmental Protection, Bureau of Mining and Reclamation require a surety bond to be posted for mining projects that leave the site safe, stable and capable of providing for a productive post-mining land use. During the year ended December 31, 2008 the Nevada Division of Minerals approved the reclamation plan for approximately $1,171,000. In January 2012, the Nevada Division of Minerals approved an increase in the 2008 reclamation plan of approximately $651,000 bringing the total approved reclamation plan to approximately $1,822,000. As required by the bond pool program, we have a cash deposit of $721,748 held by the Nevada Division of Minerals at December 31, 2011 and 2010. In January 2012 we paid an additional reclamation bond deposit of $520,000.

Competition

We compete with other mineral exploration and mining companies in connection with the acquisition of gold and other mineral properties. There may be competition for gold acquisition opportunities, some of which may involve other companies having substantially greater financial resources than we do.

Financing Events

During the latter part of 2009 and throughout 2010, we completed five financing transactions resulting in over $71.5 million in gross financing to fund operations, acquire mineral property, fund exploration drilling and mine development, exchange or repay debt and for other general corporate matters. These transactions primarily related to proceeds from the funding of approximately $5.1 million in debt financing, the exchange of $29.4 million of convertible and other debt for newly created Series A preferred stock (the “Series A Preferred Stock”), the raise of approximately $35.75 million in gross proceeds (approximately $33.2 million, net of issuance costs, by issuing shares of our newly created Series B Preferred stock (the “Series B Preferred Stock”), and the proceeds from other transactions of $810,000.

In February 2012, the Company raised $17.25 million in gross proceeds (approximately $15.3 million, net of issuance costs) through an underwritten public offering of 9,078,948 shares of Company common stock at a price of $1.90 per share. The Company intends to use the net proceeds from the offering for exploration and development of the Company’s primary target areas, that is the Lucerne, Dayton and Spring Valley Resource Areas, as well as for working capital and general corporate purposes.

Item 1A. Risk Factors

An investment in our securities involves risk. You should carefully consider the following risk factors, in addition to those discussed elsewhere in this report, in evaluating our Company, its business, its industry and prospects. The risks described below are not the only ones facing us. Additional risks not presently known to us, or that we currently deem immaterial, may also have a material adverse effect on us. The following risks could cause our business, financial condition, results of operations or cash flows to be materially and adversely affected. In that case, the market price of our securities could decline, and you could lose part or all of your investment

You may lose all or part of your investment.

If we are unable to find and mine adequate quantities of gold and silver ore, it is unlikely that the cash generated from our internal operations will suffice as a primary source of the liquidity necessary for anticipated working capital requirements. There is no assurance that the Company’s initiatives to improve its liquidity and financial position will be successful. Accordingly, there is substantial risk that the Company will be unable to continue as a going concern. In the event of insolvency, liquidation, reorganization, dissolution or other winding up of the Company, the Company’s creditors and preferred stockholders would be entitled to payment in full out of the Company’s assets before holders of common stock would be entitled to any payment and the claims on such assets may exceed the value of such assets.

Because we may never earn revenues from our mine operations, our business may fail.

We have no recent history of revenues from mine operations. We have never had significant operations and have no significant assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. We have a limited operating history and are in the exploration stage. The success of our Company is significantly dependent on the uncertain events of the discovery and exploitation of mineral reserves on our properties or selling the rights to exploit those mineral reserves. If our business plan is not successful and we are not able to operate profitably, then our securities may become worthless and investors may lose all of their investment in our Company.

Prior to completion of the exploration stage, we anticipate that we will incur increased operating expenses without realizing any revenues. We therefore expect to incur significant losses into the foreseeable future. We recognize that if we are unable to generate significant revenues from the exploration of our mineral claims in the future, we will not be able to earn profits or continue operations. There is no history upon which to base any assumption as to the likelihood that we will prove successful, and we can provide no assurance that we will generate any revenues or ever achieve profitability. If we are unsuccessful in addressing these risks, our business will fail and investors may lose all of their investment in our Company.

***Transportation difficulties and weather interruptions may affect and delay proposed mining operations and impact our business plans*.**

Our mining properties are accessible by road. The climate in the area is hot and dry in the summer but cold and subject to snow in the winter, which could at times hamper accessibility depending on the winter season precipitation levels. As a result, our exploration and mining plans could be delayed for several months each year. Such delays could affect our anticipated business operations and increase our expenses.

***Supplies and equipment needed for exploration may not always be available. If we are unable to secure exploration supplies we may have to delay our anticipated business operations*.**

Competition and unforeseen limited sources of supplies needed for our proposed exploration work could result in occasional shortages of supplies of certain products, equipment or materials. There is no guarantee we will be able to obtain certain products, equipment and/or materials as and when needed, without interruption, or on favorable terms, if at all. Such delays could affect our anticipated business operations and increase our expenses.

***We have invested capital in high-risk mineral projects where we have not conducted sufficient exploration and engineering studies*.**

We have invested capital and have otherwise been involved in various mineral properties and projects in the Comstock District where we have not conducted sufficient exploration and engineering studies to minimize the risk of project failure to the extent that is typical in the mining industry or prudent considering our size. Our mineral projects involve high risks because we have not invested sufficient sums in the characterization of mineralized material, geologic analysis, metallurgical testing, mine planning and economic analysis to the same extent that other mining companies might deem reasonable due to limited resources. Standard industry practice calls for a mining company to prepare a formal mine plan and mining schedule and have these documents reviewed by a third party specialist. We do not have a formal mine plan that has been reviewed by a third party specialist.

We will not be successful unless we recover precious metals and sell them for a profit.

Our success depends on our ability to recover precious metals, process them, and successfully sell them for more than the cost of production. The success of this process depends on the market prices of metals in relation to our costs of production. We may not be able to generate a profit on the sale of gold or other minerals because we can only maintain a level of control over our costs and have no ability to control the market prices. The total cash costs of production at any location are frequently subject to great variation from year to year as a result of a number of factors, such as the changing composition of ore grade or mineralized material production, and metallurgy and exploration activities in response to the physical shape and location of the ore body or deposit. In addition, costs are affected by the price of commodities, such as fuel and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production unprofitable. A material increase in production costs or a decrease in the price of gold or other minerals could adversely affect our ability to earn a profit on the sale of gold or other minerals.

We do not have proven or probable reserves, and there is no assurance that the quantities of precious metals we produce, if any, will be sufficient to recover our investment and operating costs.

Our success depends on our ability to produce sufficient quantities of precious metals to recover our investment and operating costs. We do not have proven or probable reserves. Substantial expenditures are required to acquire existing gold properties with established reserves or to establish proven or probable reserves through drilling and analysis. We do anticipate expending large sums for additional drilling and analysis which may or may not establish proven or probable reserves on our properties. We drill in connection with our mineral exploration activities and not with the purpose of establishing proven and probable reserves. Therefore, our activity must be called exploration or test mining. While we estimate the amount of mineralized material we believe exists on our properties, our calculations are estimates only, subject to uncertainty due to several factors, including the quantity and grade of ore, metal prices and recoverability of minerals in the mineral recovery process. There is a great degree of uncertainty attributable to the calculation of any mineralized material, particularly where there has not been significant drilling, mining and processing. Until the mineralized material located on our properties is actually mined and processed, the quantity and quality of the mineralized material must be considered as an estimate only. In addition, the estimated value of such mineralized material (regardless of the quantity) will vary depending on metal prices. Any material change in the estimated value of mineralized material may negatively affect the economic viability of our properties. In addition, there can be no assurance that we will achieve the same recoveries of metals contained in the mineralized material as in small-scale laboratory tests or that we will be able to duplicate such results in larger scale tests under on-site conditions or during production. There can be no assurance that our exploration activities will result in the discovery of sufficient quantities of mineralized material to recover our investment and operating costs.

The cost of our exploration and acquisition activities is substantial, and there is no assurance that the quantities of minerals we discover or acquire will justify commercial operations or replace reserves established in the future.

Mineral exploration, particularly for gold and other precious metals, is highly speculative in nature, involves many risks, and frequently is nonproductive. There can be no assurance that our exploration and acquisition activities will be commercially successful. If gold mineralization is discovered, it may take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to acquire existing gold properties, to establish ore reserves through drilling and analysis, to develop metallurgical processes to extract metal from the ore, and in the case of new properties, to develop the processing facilities and infrastructure at any site chosen for mineral exploration. There can be no assurance that any gold reserves or mineralized material that may be discovered or acquired in the future, if any, will be in sufficient quantities or of adequate grade to justify commercial operations or that the funds required for mineral production operation can be obtained on a timely or reasonable basis, if at all. Mineral exploration companies must continually replace mineralized material or reserves depleted by production. There can be no assurance that we will be successful in replacing any reserves or mineralized material acquired or established in the future.

The price of gold and silver fluctuate on a regular basis and a downturn in price could negatively impact our operations and cash flow.

Our operations will be significantly affected by changes in the market price of gold and silver if we are able to produce gold or other minerals. Gold and silver prices can fluctuate widely and may be affected by numerous factors, such as expectations for inflation, levels of interest rates, currency exchange rates, central bank sales, forward selling or other hedging activities, demand for precious metals, global or regional political and economic crises and production costs in major gold-producing regions, such as but not limited to South Africa and the former Soviet Union. The aggregate effect of these factors, all of which are beyond our control, is impossible for us to predict. If gold or silver prices decline substantially, it could adversely affect the realizable value of our assets and potential future results of operations and cash flow.

The use of hedging instruments may not prevent losses being realized on subsequent price decreases or may prevent gains being realized from subsequent price increases.

We may from time to time sell some future production of gold pursuant to hedge positions. If the gold price rises above the price at which future production has been committed under these hedge instruments, we will have an opportunity loss. However, if the gold price falls below that committed price, our revenues will be protected to the extent of such committed production, subject to the creditworthiness of the counterparty to such hedging transaction. We may experience losses if a hedge counterparty defaults under a contract when the contract price exceeds the gold price. As of December 31, 2011, we have no open hedge positions.

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Since our business consists of exploring for or acquiring gold and silver prospects, the drop in the price of gold or silver will negatively affect our asset values, cash flows, potential revenues and profits.

We plan to pursue opportunities to acquire properties with gold or silver mineralized material or reserves with exploration potential. The price that we pay to acquire these properties will be influenced, in large part, by the price of gold and silver at the time of the acquisition. Our potential future revenues are expected to be derived from the production and sale of gold and silver from these properties or from the sale of some of these properties. The value of any gold reserves and other mineralized material, and the value of any potential mineral production therefrom, will vary in direct proportion to variations in those mineral prices. The price of gold and silver has fluctuated widely as a result of numerous factors beyond our control. The effect of these factors on the price of gold and silver, and therefore the economic viability of our projects, cannot accurately be predicted. Any drop in the price of gold or silver would negatively affect our asset values, cash flows, potential revenues and profits.

We compete with other mineral exploration and mining companies which could lead to the loss of opportunities.

We compete with other mineral exploration and mining companies or individuals, including large, established mining companies with substantial capabilities and financial resources, to acquire rights to mineral properties containing gold and other minerals. There is a limited supply of desirable lands available for claim staking, lease or other acquisition. There can be no assurance that we will be able to acquire such properties when competing against competitors with substantially greater financial resources than we have.

Our activities are inherently hazardous and any exposure may exceed our insurance limits or may not be insurable.

Mineral exploration and operating activities are inherently hazardous. Operations in which we have direct or indirect interests will be subject to all the hazards and risks normally incidental to exploration and production of gold and other metals, any of which could result in work stoppages, damage to property and possible environmental damage. The nature of these risks is such that liabilities might exceed any applicable liability insurance policy limits. It is also possible that the liabilities and hazards might not be insurable, or we could elect not to insure ourselves against such liabilities because of the high premium costs, in which event, we could incur significant costs that could have a material adverse effect on our financial condition.

Our ability to execute our strategic plans depends upon our success in obtaining a variety of required governmental approvals that may be opposed by third-parties.

We do not possess all of the governmental approvals necessary to conduct the full extent of the operations contemplated by our strategic plan. Those operations will be delayed, hindered or prevented to the extent that we are unable to obtain the necessary permits and approvals in a timely fashion or at all. This inability may occur to a variety of factors, including opposition by third parties, such as members of the public or environmental groups. We expect that future permit and approval applications and issuances will meet with similar opposition. Notwithstanding the fact that the issuing agencies will be prepared to support their actions, we may encounter delays and added costs if permits and approvals are challenged.

Our operations are subject to strict environmental laws and regulations, which result in added costs of operations and operational delays.

Our operations are subject to strict environmental regulations, which could result in additional costs and operational delays. All phases of our operations are subject to environmental regulation. Environmental legislation is evolving in the United States generally, and Nevada specifically, in a manner that may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that any future changes in environmental regulation will not negatively affect our projects.

At the state level, mining operations in Nevada are regulated by the Nevada Division of Environmental Protection, or NDEP. Nevada state law requires our Nevada projects to hold Nevada water pollution control permits, which dictate operating controls and closure and post-closure requirements directed at protecting surface and ground water. In addition, we are required to hold Nevada reclamation permits required under Nevada law. These permits mandate concurrent and post-mining reclamation of mines and require the posting of reclamation bonds sufficient to guarantee the cost of mine reclamation. Other Nevada regulations govern operating and design standards for the construction and operation of any source of air contamination and landfill operations. Any changes to these laws and regulations could have a negative impact on our financial performance and results of operations by, for example, requiring changes to operating constraints, technical criteria, fees or surety requirements.

Because our land holdings are within the Carson River Mercury Superfund Site, our operations are subject to certain soil sampling and potential remediation requirements, which will result in added costs and delays; and we are also potentially subject to further costs as the result of on-going government investigation and future remediation decisions.

Substantially all of our land holdings are within the Carson River Mercury Superfund Site (CRMS) Study Area and portions are within the risk area boundaries identified by NDEP and the United States Environmental Protection Area (USEPA). These risk areas have been defined due to the known or suspected presence of certain contaminants of concern, including mercury, arsenic and lead. To comply with the agencies' requirements for excavating in these areas, the Company will conduct a pre-excavation soil sampling pursuant to a plan that has been approved by the NDEP. This sampling is intended to demonstrate the absence of contamination before initiating excavating for mining, processing or other operations in that area. If contamination above agency-established levels of concern are encountered, the Company intends to excavate and process such materials for metals recovery wherever feasible. If metals recovery is not feasible, the Company may avoid or defer excavating in that area or remove the materials for disposal. Through this sampling program and, if necessary, remove of contaminated materials, the Company intends to enable the NDEP and USEPA to better define the Carson River Superfund Site and the currently designated risk areas so as to eventually exclude our land holdings from such areas and from the Site itself to the maximum extent feasible. The NDEP and USEPA are continuing to study the ecological and human health risks that may be presented by contaminated sediments in certain portions of the Carson River watershed and downstream areas. The agencies' studies indicate that these contaminants are primarily associated with historic mining tailings that have been redistributed into these waterways. The agencies have not adopted a remedial plan for these sediments nor have they decided whether remediation will be undertaken. Thus, there is no assurance that the Company will not be asked to undertake additional investigatory or remediation activities or to pay for such activities by the agencies or that future changes in CRMS-related requirements will not negatively affected our operations.

We have no insurance for environmental problems.

Insurance against environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production, has not been available generally in the mining industry. We have no insurance coverage for most environmental risks. In the event of a problem, the payment of environmental liabilities and costs would reduce the funds available to us for future operations. If we are unable to fund the cost of remedying an environmental problem, we might be required to enter into an interim compliance measure pending completion of the required remedy.

We are subject to federal laws that require environmental assessments and the posting of bonds, which add significant costs to our operations and delays in our projects.

The Bureau of Land Management (“BLM”) requires that mining operations on lands subject to its regulation obtain an approved plan of operations subject to environmental impact evaluation under the National Environmental Policy Act. Any significant modifications to the plan of operations may require the completion of an environmental assessment or Environmental Impact Statement prior to approval. Mining companies must post a bond or other surety to guarantee the cost of post-mining reclamation. These requirements could add significant additional cost and delays to any mining project undertaken by us. Our mineral exploration operations are required to be covered by reclamation bonds deemed adequate by regulators to cover these risks. We believe we currently maintain adequate reclamation bonds for our operations.

Title claims against our properties could require us to compensate parties making such claims, if successful, and divert management's time from operations.

There may be challenges to our title in the properties in which we hold material interests. If there are title defects with respect to any of our properties, we might be required to compensate other persons or perhaps reduce our interest in the affected property. The validity of unpatented mineral claims, which constitute most of our holdings in the United States, is often uncertain and may be contested by the federal government and other parties. The validity of an unpatented mineral claim, in terms of both its location and its maintenance, depends on strict compliance with a complex body of federal and state, statutory and decisional law. Although we have attempted to acquire satisfactory title to our properties, we have not obtained title opinions or title insurance with respect to the acquisition of the unpatented mineral claims. While we have no pending claims or litigation pending contesting title to any of our properties, there is nothing to prevent parties from challenging our title to any of our properties in the future, and there is always some risk that some titles may be defective or subject to challenge. In such case, the investigation and resolution of title issues would divert management's time from ongoing exploration programs.

Our business depends on a limited number of key personnel, the loss of whom could negatively affect us.

Each of our officers and employees is important to our success. If any of them becomes unable or unwilling to continue in their respective positions and we are unable to find suitable replacements, our business and financial results could be materially negatively affected.

If we fail to adequately manage our growth, we may not be successful in growing our business and becoming profitable.

We plan to expand our business and the number of employees over the next 12 months. In particular, we intend to hire additional operational personnel. Our inability to hire and retain additional qualified employees could have a negative impact on our chances of success.

Our stock is a penny stock and trading of our stock may be restricted by the SEC's penny stock regulations, which may limit a stockholder's ability to buy and sell our stock.

Our stock is a penny stock. Rule 3a51-1 generally defines "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers that sell to persons other than established customers and “accredited investors.” The term “accredited investor” refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 (excluding one’s primary residence) or annual income exceeding $200,000 individually or $300,000 jointly with their spouse. The penny stock rules (including Rule 15g-9) require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock. The Financial Industry Regulatory Authority (FINRA) sales practice requirements may also limit a stockbroker’s ability to buy or sell our stock.

In addition to the "penny stock" rules promulgated by the SEC, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretation of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy or sell our stock and have an adverse effect on the market for our shares.

The price of the Company's common stock may fluctuate significantly, which could negatively affect the Company and holders of its common stock.

The market price of the Company's common stock may fluctuate significantly from time to time as a result of many factors, including:

- investors' perceptions of the Company and its prospects;
- investors' perceptions of the Company's and/or the industry's risk and return characteristics relative to other investment alternatives;
- investors' perceptions of the prospects of the mining and commodities markets;
- difficulties between actual financial and operating results and those expected by investors and analysts;
- our inability to commence production, obtain permits or otherwise fail to reach Company objectives;
- actual or anticipated fluctuations in quarterly financial and operational results;
- volatility in the equity securities market; and
- sales, or anticipated sales, of large blocks of the Company's common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have, and may never obtain, research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of the Company, the trading price for our common stock would be negatively impacted. If we obtain securities or industries analysts coverage and if one or more of the analysts who cover us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

We do not expect to pay any cash dividends for the foreseeable future.

We currently expect to retain all available funds and future earnings, if any, for use in the operation and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board, subject to compliance with applicable law, our organizational documents (including the certificates of designations for our preferred stock, which prohibit cash dividends to common stockholders without the consent of preferred stockholders) and any contractual provisions, including under agreements for indebtedness we may incur, that restrict or limit our ability to pay dividends, and will depend upon, among other factors, our results of operations, financial condition, earnings, capital requirements and other factors that our Board deems relevant. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

Restrictions imposed by the terms of the Company's preferred stock may inhibit growth.

The certificates of designations of our preferred stock substantially limit the ability of the Company to incur debt, issue securities, enter into merger or acquisition transactions, redeem capital stock, or pay dividends to common shareholders, among other things. Such restrictions could significantly impact the Company's ability to go into production and generate cash flows.

Holders of common stock will be minority stockholders of the Company.

Mr. John V. Winfield, the Chairman of our Board of Directors, and entities that he controls (the "Winfield Group"), through its ownership of common stock, preferred shares and warrants of the Company, owns approximately 37.1% of the economic interests of the Company's capital stock and approximately 75.9% of the voting security interests, in each case on an as converted basis, as of December 31, 2011. As a result, the ability of holders of common stock to determine the management and policies of the Company is significantly limited.

Outstanding convertible securities and warrants may result in substantial dilution.

At December 31, 2011, we had outstanding 28,990,630 shares of common stock. In addition, we had outstanding preferred shares plus various common stock purchase warrants. At December 31, 2011, shares of preferred shares and warrants were convertible into, or exercisable for, a total of approximately 65.5 million additional shares of our common stock, subject to further anti-dilution provisions.

The terms of the Operating Agreement of Northern Comstock LLC may significantly dilute the ownership interests of the common stock.

The Operating Agreement of Northern Comstock LLC provides for capital contributions by the Company in the form of shares of Series A-1 Convertible Preferred Stock (the "Series A-1 Preferred Stock") unless Northern Comstock LLC requests payment in cash. The Operating Agreement provides for additional capital contributions of 862.5 shares of Series A-1 Preferred Stock (approximately 1.3 million shares of common stock as converted) on each anniversary of the Operating Agreement through and including the 39th anniversary, if no requests for contributions in cash were made. If an event of default occurs under the Operating Agreement, the additional capital contributions could be accelerated and the entire unpaid amount of the Company's capital contribution, up to the aggregate 34,500 shares of Series A-1 Preferred Stock (approximately 53 million shares of common stock as converted) issuable under the Operating Agreement, could become issuable immediately at the option of Northern Comstock LLC. The Company has made the first two capital contributions and therefore there are capital contributions of 32,775 shares of Series A-1 convertible preferred stock (approximately 50.3 million shares of common stock as converted) remaining. In addition the Operating Agreement provides that each time more than 200,000 gold equivalent ounces of measured and indicated resources are validated, the capital contributions for such year will be accelerated to $5 million or 5,000 shares of Series A-1 preferred stock.

The Company may issue additional common stock or other equity securities in the future that could dilute the ownership interest of existing stockholders.

The Company is currently authorized to issue 3,950,000,000 shares of common stock, of which 28,990,630 shares were issued and outstanding as of December 31, 2011, and 50,000,000 shares of preferred stock, of which 59,216 Preferred Shares are issued and outstanding as of the December 31, 2011. To maintain its capital at desired levels or to fund future growth, the Board may decide from time to time to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. The sale of these securities may significantly dilute stockholders' ownership interest and the market price of the common stock. New investors in other equity securities issued by the Company in the future may also have rights, preferences and privileges senior to the Company's current stockholders that may adversely impact its current stockholders.

Item 2. Properties

Comstock Mine Project

Location, Access, and Title to the Property

The Comstock Mine Project is located in Storey and Lyon Counties, Nevada. The property is physically situated just south of Virginia City, Nevada. Paved state routes from Reno, Carson City, and Virginia City provide access to the property. The Comstock Mine Project has been the focus of our exploration efforts since 2007, and has been the subject of three National Instruments 43-101 technical reports published in May 2010, August, 2010, and November 2011.

Our property rights to the mineral estate of the Comstock Mine Project consist of five mineral leases, one joint venture (providing exclusive rights to exploration, development, mining and production), fee ownership of real property and mining claims administered by the BLM. This project has 92 patented and 325 unpatented mineral lode claims as well as 25 unpatented placer claims. The Comstock Mine Project holdings consist of approximately 6,315 acres of active mining claims and surface parcels (private lands) in the Comstock District. The acreage is comprised of 1,455 acres of patented mining claims and surface parcels and 4,860 acres of unpatented mining claims.

The Comstock Mine Project mineral leases are as follows:

Fred Garrett - Lease

On April 1, 2008, we entered into a mineral exploration and mining lease agreement with Fred Garrett et al, covering one patented claim located in Storey, Nevada. The lease remains in effect as long as exploration, development, mining, or processing operations are being conducted on a continuous basis, without a lapse of activity for more than 180 days. We pay a royalty to the lessor of $250 per month or a 3% NSR, whichever is greater. We are responsible for the payment and filing of annual maintenance fees, if any, and taxes for these claims.

James Obester Lease

On August 1, 2008, we entered into a mineral exploration and mining lease agreement with James Obester, covering ten unpatented claims located in Storey County. The lease remains in effect as long as exploration, development, mining, or processing operations are conducted on a continuous basis, without a lapse of activity of more than 180 days. We pay a royalty to the lessor amounting to $200 per month for the first two years, increasing to $300 per month for the following three years, and then increasing to $500 per month thereafter. In addition, a NSR royalty percentage is applicable. The royalty percentage is a 2% NSR when gold is $900 or less per ounce and 3% NSR when gold is greater than $900 per ounce. We are also responsible for payment and filing of annual maintenance fees, if any, and taxes for these claims.

Railroad & Gold - Lease

On October 1, 2009, we entered into a mineral exploration and mining lease agreement with Railroad and Gold, LLC covering nine patented mining claims and sixteen unpatented mining claims in Storey County. The lease also includes rights for nine town lots and a rural parcel in American Flats. The lease is for an initial term of 15 years, but remains in effect for as long as exploration, development, mining, or processing operations are conducted on a continuous basis. We made an initial payment of $25,000 for the lease. The Company will make annual advance minimum royalty payments, starting with $30,000 on the first anniversary, and increasing by $5,000 each year. We are also required to pay a 4% NSR, which will be reduced by the sum of previously paid advance minimum royalties. We are also responsible for payment and filing of annual maintenance fees, if any, and taxes for these claims.

New Daney - Lease

On June 2, 2010, we entered into a mineral exploration and mining lease agreement with New Daney Company, Inc. covering seven unpatented lode claims. These claims are located in Lyon County and are contiguous with the company's Spring Valley mineral holdings. All production from the property is subject to a 3% NSR. Once permits have been obtained to put the property into production, lease payments will be treated as advance royalties, which will be credited against the NSR. The Company will make advance minimum royalty payments of $200 per month. The lease is for an initial term of five years. We have the option, if we believe the property warrants further development, to extend an additional five years and then continuously thereafter as long as exploration, development, mining, or processing operations are conducted on a continuous basis.

Renegade Mineral Holdings - Lease

On October 14, 2010, we acquired 26 unpatented lode-mining claims along the southern extension of the Occidental Lode structure in Storey County, Nevada. The historic Occidental Lode, also referred to as the Brunswick Lode, is located 1.5 miles due east of and sub-parallel to the veins of the main Comstock Lode. These claims adjoin and extend the Company's previous holdings of six patented and six unpatented claims, significantly expanding the Company's position on the Occidental Lode. The lease has an initial term of three years and, in the event we determine that exploration results warrant further development, then the term can be extended initially for two additional six-year terms and then continuously thereafter as long as the Company is producing on property adjacent to or in the vicinity of these new claims. The agreement includes a 3% NSR royalty from production with the gold price capped at $2,000 per ounce. We are also responsible for payment and filing of annual maintenance fees, if any, and taxes for these claims.

Northern Comstock Minerals

On October 20, 2010, the Company entered into an operating agreement (the "Operating Agreement") to form Northern Comstock LLC ("Northern Comstock") with Mr. Winfield, our Chairman and largest shareholder, and an entity controlled by Mr. Winfield, DWC Resources, Inc. ("DWC"). As part of the Operating Agreement, the Company obtained rights relating to certain property formerly owned by DWC in Storey County, Nevada (the "DWC Property") and two groups of properties leased by Mr. John Winfield in Storey County, Nevada from the Sutro Tunnel Company (the "Sutro Property") and Virginia City Ventures (the "VCV Property").

Pursuant to the terms of the Operating Agreement for Northern Comstock, DWC contributed the DWC Property to Northern Comstock and John Winfield contributed his rights under the Sutro Property and the VCV Property to Northern Comstock. The Company contributed 862.5 shares of Series A-1 Preferred Stock in both 2010 and 2011, and will contribute its services in the area of mine exploration, development and production to Northern Comstock. The terms of the Operating Agreement provide that on each anniversary of the Operating Agreement, up to and including the thirty-ninth (39th) anniversary, the Company will make additional capital contributions in the amount of $862,500, in the form of Series A-1 Preferred Stock or cash (upon request of Northern Comstock, which request for cash can be denied by the Company in certain circumstances). Under certain circumstances, the additional capital contributions can be accelerated.

The Operating Agreement provides the Company with the exclusive rights of development, production, mining and exploration on the respective properties and requires the Company to make certain expenditures toward that end. Under the terms of the Operating Agreement, all cash flows from the bullion or other minerals recovered from the ore mined out of the ground but untreated and minerals produced from the milling or reduction of ore to a higher grade produced from the DWC Property, Sutro Property or VCV Property, as applicable, or finished products produced from any such property, will be distributed to the Company after the payment of royalties associated with such properties.

Mineral production from the DWC Property is subject to a royalty on a sliding scale. At gold prices over $750 per ounce, production of the first 500,000 ounces is subject to a 3% NSR. Production over 500,000 ounces is subject to a 6% NSR. Mineral production from the DWC Property is also subject to a 1% NSR payable to Mr. Art Wilson.

Mineral production on the Sutro Property is subject to a royalty on a sliding scale to John Winfield. At gold prices over $250 per ounce, production of the first 500,000 ounces is subject to a 1% NSR. Production over 500,000 ounces is subject to a 2% NSR. A separate royalty of 5% NSR is also payable to the Sutro Tunnel Company on all production from the Sutro Property. Mineral production from the VCV Property is subject to a 5% NSR. The Company will make advance minimum royalty payments of $6,000 per year on each of the Sutro Property and the VCV Property leases. Each lease is for an initial term of five years. We have the option, if we believe the property warrants further development, to extend an additional five years and then continuously thereafter as long as exploration, development, mining, or processing operations are conducted on a continuous basis.

The Como Project

The Como Project is located in Lyon County, Nevada, approximately 15 miles east of Carson City. The Company performed geological reconnaissance on this property, but has not drilled or collected any samples. We own a 100% interest in eight unpatented lode-mining claims, covering an area of approximately 168 acres in Lyon County, Nevada, that comprise the Como Project.

Facilities Area

The Company's headquarters, mine operations and heap leach processing facility occupy a 78-acre site in Storey County, Nevada, at 1200 American Flat Road, approximately three miles south of Virginia City and 30 miles southeast of Reno, Nevada. The property was included in the acquisition of Plum Mining by the Company in November 2003.

Present Condition of Property and Work Performed

We have completed extensive geological mapping, sampling, and drilling on a portion of the Comstock Mine Project property, in order to characterize the mineralized material. We have performed preliminary metallurgical testing, mine planning, and economic analysis, and have produced internal reports of our mineralized material inventory. However, we have not established reserves that meet the requirements of SEC Industry Guide 7. Therefore, any activity we perform on the property is considered exploratory in nature. Part of our exploration included operating a test mine. The purpose of the test mine was to determine our capital and operating costs, metallurgical recoveries, and other mining factors

Description of Equipment and other Infrastructure Facilities

We own mine office buildings and a shop building, an agglomerator, screen, water trucks, five 50-ton haul trucks, generators, dozers, cement silos with screw feeders, and conveyors. We also own a Merrill-Crowe gold precipitation plant, refinery, laboratory and crushing equipment that are new.

Geology, Structure and Mineralization

Gold and silver mineralization in the project area is highly dependent on geologic structural ground preparation over millions of years, as it is throughout the Comstock Mining District. The heavily-faulted, volcanic-hosted setting of the Plum Mine area is favorable with respect to the natural conditions under which gold and silver mineralization occurs.

Mineralization in the Hartford Complex area is hosted by the northwest striking Silver City fault zone and is enhanced in volume and grade where intersected by cross-cutting east-west and northeast striking structures. Detailed geologic studies by our geology staff have identified four sub-parallel northwest striking faults within the Silver City fault zone. The spacing between these faults is about 150 feet, while thicknesses of mineralization along individual faults range from 40 to 120 feet.

Mineralization within the project drill area is more gold enriched with silver to gold ratios of approximately 10:1. This compares to ratios of silver to gold of 100:1 over the historic Comstock bonanzas. Drilling has outlined gold and silver mineralization over a strike distance of nearly one mile, with in-fill drilling on 50 to 70 foot centers over .6 of a mile. Mineralization is open-ended to the north and south along strike and down-dip to the east.

Future Exploration Potential

The Comstock Mining District is a well-known, historic mining district, with over 150 years of production history. We have access to extensive reports and maps on various properties in the district, but to-date, we have only conducted detailed geologic exploration on approximately 3% of our 6,315 acre land position. We are conducting an ongoing exploration program to locate and test surface mineral targets as well as deep underground bonanza targets by using historic compilation, geological mapping, geochemical and geophysical investigations and drilling.

Item 3. Legal Proceedings

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, results of operations, financial condition or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our common stock is traded on the NYSE Amex LLC exchange under the symbol “LODE.” The Company implemented a reverse stock split (200:1) in the second quarter 2010. Market prices reported for periods preceding the reverse stock split have been adjusted to give retroactive effect to the reverse stock split.

The following table sets forth the quarterly high and low sales prices of our common stock for the periods set forth below:

Quarterly Period	High	Low
2011		
Fourth Quarter	$2.62	$1.59
Third Quarter	$3.35	$1.95
Second Quarter	$3.78	$2.94
First Quarter	$3.50	$2.58
2010		
Fourth Quarter	$4.30	$1.93
Third Quarter	$2.21	$1.20
Second Quarter	$3.00	$1.20
First Quarter	$2.20	$1.24

The last reported sale price of our common stock on the NYSE AMEX on December 31, 2011 was $1.84 per share. As of December 31, 2011, the number of holders of record was approximately 556.

Equity Compensation Plan Information

See *Equity Compensation Plan Information* under *Item 11. Executive Compensation* below for information on plans approved by our stockholders.

Recent Sales of Unregistered Securities

Set forth below is information regarding shares of common stock issued by us during the year ended December 31, 2011 that were not registered under the Securities Act and not previously disclosed in a quarterly report on Form 10-Q or in a current report on Form 8-K. Also included is the consideration, if any, received by us for such shares and information relating to the section of the Securities Act, or rule of the SEC, under which exemption from registration was claimed.

- On April 15, 2011, the Company granted 100,000 shares of common stock to director Robert Reseigh in recognition of his service to the Company.
- On June 7, 2011, the Company granted 100,000 shares of common stock each to directors Scott Jolcover and William Nance in recognition of their service to the Company.
- On October 3, 2011, the Company issued 192,600 shares of common stock to Michael and Kathryn Dondero in connection with the purchase of land.

No underwriters were involved in the foregoing issuances of securities. The offers, sales and issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance upon Rule 701 of the Securities Act or Section 4(2) of the Securities Act. The issuances of stock that were exempt under Rule 701 were transactions under compensatory benefit plans and contracts. The issuance of stock that was exempt under Section 4(2) was a private offering to accredited investors within the meaning of Rule 501 of Regulation D of the Securities Act. Each of the recipients of securities in these transactions had adequate access, through directorship, business or other relationships, to information about us.

Dividend Policy

We have never declared or paid any dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will depend upon our financial condition, operating results, capital requirements and other factors the board of directors deems relevant. We are restricted from declaring or paying common stock dividends in cash under the terms of our Preferred Stock.

Item 7. 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 our company. It should be read in conjunction with the Consolidated Financial Statements and accompanying Notes also included in this 10-K.

The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the year ended December 31, 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 and Silver City mining districts (collectively, the “Comstock District”). The Comstock District is located within the western portion of the Basin and Range Province of Nevada, between Reno and Carson City. 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 its initial exploration projects into test mining production. The Company produced over 12,000 ounces of gold and over 53,000 ounces of silver in 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.

The goal of our strategic plan is to deliver stockholder value by validating qualified resources (measured and indicated) and reserves (probable and proven) of 3,250,000 gold equivalent ounces by 2013, and commence commercial mining and processing operations with annual production rates of at least 20,000 gold equivalent ounces.

Because of the Comstock District’s historical significance, the geology is well known and has been extensively studied by the Company, our advisors and many independent researchers. We believe that we have amassed the largest known library of historical and current data and detailed surface mapping of Comstock District properties. We use such data in conjunction with our drilling programs to expand our understanding of the Comstock District’s structural geology as well as its broader geological footprint.

The Company has drilled 646 RC and core holes, representing over 242,000 feet of drill data in the Lucerne Resource Area. The Company also has 432 RC and core holes from the Lucerne Resource Area representing over 56,000 feet of drill data drilled by other companies preceding us. The data obtained has furthered our knowledge of the region’s mineralization and provided the information used to develop a mine plan in our Lucerne Resource Area. We also have drill results from 323 holes, representing over 59,000 feet of drill data in our Dayton Resource Area. In our exploration and development campaigns, all drilling, surface and down-hole surveying, hole abandonment, geologic logging, sampling, and assays were performed to industry-recognized standards.

Our Lucerne Resource Area, the site where our first commercial mining activities are scheduled to start in 2012, is located in Storey County, Nevada, approximately three miles south of Virginia City, Nevada and 30 miles southeast of Reno, Nevada. Our Dayton Resource Area, the proposed site for our second commercial mining activities, is located in Lyon County Nevada, approximately six miles south of Virginia City. Access to the properties is by State Route 342, a paved highway.

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 6,315 acres of mining claims in the Comstock District. The acreage is comprised of 1,455 acres of patented mining claims and service parcels (private lands) and 4,860 acres of unpatented mining claims, which the BLM administers. The Company also owns a heap leach processing facility that will be redesigned and modified to accommodate our new production plans.

Strategic Plan

In April 2010, the Board approved a strategic plan designed to restructure and recapitalize the Company, accelerate mine development and production and continue exploration. Since then, we have accomplished all of the following key objectives contemplated by the strategic plan within the time frame contemplated:

- Reorganized management, including the appointment of a new chief executive, vice president of operations, vice president of exploration and mine development, vice president of strategic resource planning, director of environmental and regulatory management, senior mine planner, chief accounting officer and controller;
- Consummated the 200:1 reverse stock split of all common shares outstanding;
- Acquired ownership or control of more than 1,800 acres, leading to substantial increases in the Company’s measured, indicated and inferred resources;
- Restructured the balance sheet, including the exchange of approximately $29.4 million of secured convertible indebtedness for convertible preferred equity;

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- Completed an equity capital raise of approximately $35.75 million through the issuance of convertible preferred equity;
- Listed the Company’s common stock on the NYSE Amex LLC exchange; and
- Obtained the required permits for production and expanded exploration and drilling purposes.

As part of the strategic plan, the Company has scheduled the exploration and development drilling intended to validate mine design and identify qualified resources and reserves with three intermediate objectives of validating measured and indicated resources containing 1,000,000 gold equivalent ounces, 1,500,000 gold equivalent ounces, and 2,000,000 gold equivalent ounces, respectively, and the long term planned objective of 3,250,000 gold equivalent ounces to be achieved in 2013, with an annual run rate of at least 20,000 gold equivalent ounces with respect to the Company’s existing exploration targets. The Company has already met the first two intermediate exploration objectives. The Company has scheduled the start of production operations in 2012.

Debt for Equity Exchange

On October 20, 2010, the Company exchanged all of its senior secured convertible debentures and promissory notes for shares of its Series A Preferred Stock pursuant to the Series A Purchase Agreement. Each share of the Series A Preferred Stock is convertible at the holder’s election into 1,536 shares of common stock, therefore converting into common stock at a conversion price per share of $0.6510. The common stock underlying the Series A Preferred Stock is issuable at a fixed conversion rate (subject to anti-dilution adjustments) currently equal to approximately 43.7 million shares of common stock.

Equity Raise of $35.75 million

On October 20, 2010, the Company raised approximately $35.75 million in gross proceeds (approximately $33.2 million, net of issuance costs) by issuing shares of the Series B Preferred Stock pursuant to a the Series B Purchase Agreement, representing in the aggregate about one-third of the common equity of the Company, on a fully diluted and as converted, in-the-money basis. Each share of the Series B Preferred Stock is convertible at the holder’s election into 606.0606 shares of common stock, therefore converting into common stock at a conversion price per share of $1.65. The common stock underlying the Series B Preferred Stock is issuable at a fixed conversion rate (subject to anti-dilution adjustments) currently equal to 18.0 million shares of common stock.

As of December 31, 2011, the Company used approximately $26.6 million of the net proceeds to meet its initial capital and operating needs, accelerate mine development and production, and continue exploration. This includes approximately $9 million of capital expenditures associated with leach pad expansion, new crushing unit, lab refurbishment, rolling stock and other mining equipment, approximately $10 million for mine development and exploration and approximately $1 million for hospitality segment capital expenditures. The remaining $6.6 million was used for general corporate purposes, including environmental studies, permitting, bonding, mine planning, feasibility studies, land acquisitions and other general corporate purposes. Actual transaction fees totaled approximately $3.2 million, including $2.6 million in preferred stock issuance costs.

Pending the use of the remainder of the proceeds, the Company has invested such funds in short-term deposits, including banker acceptances and short- term, high quality, interest bearing corporate, government-issued or government-guaranteed securities.

Automatic conversion of Series A-2 preferred stock (the "Series A-2 Preferred Stock") and Series B Preferred Stock

If the daily volume weighted average price exceeds $4.50 for any 20 Trading Days during any 30 consecutive Trading Day period starting on or after the Effective Date (Effective Date means the date that all common stock underlying the convertible preferred stock have been registered for resale or may be sold without volume or manner of sale restrictions under Rule 144), then all outstanding shares of the Series A-2 Preferred Stock and Series B Preferred Stock will be forced to convert into shares of common stock, based on the then-effective conversion price. The Company will provide each holder with notice within one trading day of meeting the requirements specifying the shares of Preferred Stock held by each holder and the date three trading days later when the conversion will take effect.

Securing Land Mineral Rights.

On October 20, 2010, the Company entered into an operating agreement (the "Operating Agreement") to form Northern Comstock LLC ("Northern Comstock") with Mr. Winfield, our Chairman and largest shareholder, and an entity controlled by Mr. Winfield, DWC Resources, Inc. ("DWC"). As part of the Operating Agreement, the Company obtained rights relating to certain property formerly owned by DWC in Storey County, Nevada (the "DWC Property") and two groups of properties leased by Mr. John Winfield in Storey County, Nevada from the Sutro Tunnel Company (the "Sutro Property") and Virginia City Ventures (the "VCV Property").

Pursuant to the terms of the Operating Agreement for Northern Comstock, DWC contributed the DWC Property to Northern Comstock and John Winfield contributed his rights under the Sutro Property and the VCV Property to Northern Comstock. The Company contributed 862.5 shares of Series A-1 Preferred Stock in both 2010 and 2011, and will contribute its services in the area of mine exploration, development and production to Northern Comstock. The terms of the Operating Agreement provide that on each anniversary of the Operating Agreement, up to and including the thirty-ninth (39^{th}) anniversary, the Company will make additional capital contributions in the amount of $862,500, in the form of Series A-1 Preferred Stock or cash (upon request of Northern Comstock, which request for cash can be denied by the Company in certain circumstances). Under certain circumstances, the additional capital contributions can be accelerated.

The Operating Agreement provides the Company with the exclusive rights of development, production, mining and exploration on the respective properties and requires the Company to make certain expenditures toward that end. Under the terms of the Operating Agreement, all cash flows from the bullion or other minerals recovered from the ore mined out of the ground but untreated and minerals produced from the milling or reduction of ore to a higher grade produced from the DWC Property, Sutro Property or VCV Property, as applicable, or finished products produced from any such property, will be distributed to the Company after the payment of royalties associated with such properties.

Mineral production from the DWC Property is subject to a royalty on a sliding scale. At gold prices over $750 per ounce, production of the first 500,000 ounces is subject to a 3% NSR. Production over 500,000 ounces is subject to a 6% NSR. Mineral production from the DWC Property is also subject to a 1% NSR payable to Mr. Art Wilson.

Mineral production on the Sutro Property is subject to a royalty on a sliding scale to John Winfield. At gold prices over $250 per ounce, production of the first 500,000 ounces is subject to a 1% NSR. Production over 500,000 ounces is subject to a 2% NSR. A separate royalty of 5% NSR is also payable to the Sutro Tunnel Company on all production from the Sutro Property. Mineral production from the VCV Property is subject to a 5% NSR.

Equity Raise of $17.25 million

In February 2012, the Company raised $17.25 million in gross proceeds (approximately $15.3 million, net of issuance costs) through an underwritten public offering of 9,078,948 shares of common stock at a price of $1.90 per share. The Company intends to use the net proceeds from the offering for exploration and development of the Company's primary target areas, that is the Lucerne, Dayton and Spring Valley Resource Areas, as well as for working capital and general corporate purposes.

Pending the use of the proceeds described above, the Company has invested all of the proceeds of the offering in short-term deposits, including banker acceptances and short- term, high quality, interest bearing corporate, government-issued or government-guaranteed securities.

Our Team

Overall, the Company, as part of its restructuring efforts, has reorganized its management. We believe we have exceptional geological, geo-statistical, engineering, regulatory, environmental, financial and operating competencies on our senior team. As of December 31, 2011, we have 26 full-time and 2 part-time mining employees. We also have 5 full-time and 15 part-time hospitality employees working for the Gold Hill Hotel Inc. In addition, we have strengthened our system through agreements and relationships with certain key partners.

Developments

Exploration

The goal of our strategic plan includes validating qualified resources (measured and indicated) and reserves (probable and proven) of 3,250,000 gold equivalent ounces in 2013, requiring execution of planned exploration and development drilling. Mr. Larry Martin, our vice president of exploration and mine development and a Certified Professional Geologist (CPG), manages these drill programs.

In October 2011, the Company received a unanimous approval from the Storey County Board of Commissioners passing Special Use Permit 2011-016 that granted the Company authorization to further develop its exploration drilling in the southern portion of the county.

On December 30, 2011, the Nevada Division of Environmental Protection (“NDEP”) authorized expanded exploration drilling for the Company’s two major targets in Lyon County, the Dayton Resource Area and the Spring Valley Area by issuing Reclamation Permit No. 0315 authorizing exploration drilling on up to 19.75 acres of property. NDEP’s issuance of Reclamation Permit No. 0315 was appealed to the Nevada State Environmental Commission by the “Comstock Residents’ Association”, The Nevada State Environmental Commission dismissed this appeal. The “Comstock Residents’ Association” has filed a new appeal to the Nevada State Environmental Commission. This appeal is of the approval of the Sampling and Analysis Plan required by Permit No. 0315. A public hearing of this appeal has been set for April 27, 2012. Together with the Special Use Permit issued by Story County in October of 2011, the receipt of Permit No. 0315, authorizes the Company’s proposed exploratory drilling programs in the Dayton Resource Area and Spring Valley Area.

In January 2012, the Company launched its 2012-2013, exploration drilling program. The program is anticipated to be the Company's largest, drilling program, significantly exceeding the aggregate depths of the program from October

2010 through August 2011, drilling program of 128,671 feet of reverse circulation drilling and 3,583 feet of core drilling. The Company anticipates about 300,000 feet of reverse circulation and 13,000 feet of core drilling, at a total cost of approximately $12 million. This drilling is scheduled to last approximately 18 months.

The program began on January 24, 2012 with limited Phase 1 drilling in Spring Valley, using one reverse circulation and one core drilling rig. The Spring Valley program is designed to follow-up on the Company's 2009 drilling program and to verify the continuity of the Dayton geological model southward beyond State Route 341 into predominantly unexplored Spring Valley properties. The core drilling anticipates two core holes with depths of 800 feet each. The first core hole, SVC12-01, initially twins the Company's previously-announced Spring Valley discovery hole, SV09-05, that intersected a 45 foot interval averaging 0.163 ounce per ton gold and 0.770 ounce per ton silver, from 40 to 85 feet of depth, and then continues to substantially greater depth. The second core hole, SVC12-02, is located approximately 110 feet to the south, angled to intersect a magnetic anomaly interpreted from the Company's 2011 ground magnetic survey in Spring Valley.

Following the initial drilling in Spring Valley, the Company will complete definition drilling in the Lucerne mine. The definition drilling in the Lucerne mine will provide required information to optimize and expand the mine plan and extend its life. The Lucerne mine, on patented mining claims west of State Route 342, is permitted and scheduled to begin production in 2012.

The 2012-2013 drilling program will then continue with three significant objectives: 1) step-out and infill drilling in the east-side of the Lucerne Resource Area; 2) infill drilling in the Dayton Resource Area; and 3) exploration drilling on high priority targets, including Spring Valley.

The step-out drilling phase in the east-side of the Lucerne Resource Area will test the continuity of mineralization to the north and south, and at greater depths to the east. The infill-drilling phase will then provide the detailed information needed to develop a mine plan for expanded Lucerne mine. That mine plan will position the Company to complete an economic feasibility study and initiate permitting for the expanded mine.

The infill drilling in the Dayton Resource Area will provide detailed information needed to create a preliminary mine plan for the proposed Dayton mine, to be developed in parallel with the expanded Lucerne mine. With that plan, the Company will complete a feasibility study and begin the permitting process for the proposed Dayton mine.

Production

The goal of our strategic plan includes commencing production at our Lucerne Mine, with targeted annual production rate of at least 20,000 gold equivalent ounces. The Company has scheduled the start of production operations in 2012.

On February 14, 2012, NDEP issued to the Company a Class I, Air Quality Operating Permit. This permit authorizes the remaining construction and pre-mining work culminating in the production of gold and silver later this year. Receipt of NDEP's Class I Air Quality Operating Permit to Construct (OPTC) AP1041-2761 (FIN A0404) means final construction and production activities can begin for the Lucerne mine. This permit enables many prerequisite activities and the Company will now begin organizing and implementing certain scheduled tasks including final pond constructions, followed by the installation of the crushing facility, installation of the expanded Merrill Crowe facility, and completing the expansion of the heap leach pad. Mine preparation, and ore stock piling will follow in a scheduled sequence, optimized to ensure the earliest possible gold production in 2012.

The Company has completed an internal economic analysis for the starter mine and anticipates annual operating expenses, including mining, processing, mine administration, environmental and net smelter royalty costs of approximately $12 million per year assuming the mine operations processes approximately one million tons per annum.

Recent Developments

From January 1, 2012 through March 30, 2012, preferred shareholders converted 235 shares of convertible preferred stock into 142,423 common shares.

Land and Mineral Right Acquisitions

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. The following acquisitions were completed in 2011.

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 with the balance financed through the issuance of a $340,000 note. The note assumed in the acquisition bears interest of 4.5% per annum and has a term of 15 years. Interest and principal payments shall be made monthly installments of $2,601 with the final payment due on or before April 30, 2026.

On August 26, 2011, we purchased a house located in Silver City, Nevada near the Gold Hill Hotel property for $90,000 consisting of approximately $45,941 cash payment and the issuance of a $44,059 note. The note assumed bears interest of 8% per annum and has a remaining term of eight years. Interest and principal payments shall be made monthly in installments of $621.

On August 31, 2011, we purchased a house located in Gold Hill, Nevada, adjoining the Gold Hill Hotel properties for $150,000 in cash.

On October 6, 2011, the Company acquired eight patented lode-mining claims and six unpatented lode-mining claims on the Oest and Comet lodes, west of Silver City, Nevada. The purchase price was $275,000. It consisted of a $50,000 initial payment and a $225,000 note bearing 0% interest, payable in ten quarterly payments of $22,500.

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 restricted common stock (192,600 shares).

On October 12, 2011, we purchased 14.64 acres and 10.13 acres, respectively from two sellers in the Comstock District for $200,000. We paid $30,000 in cash and financed the balance of the purchase price by issuing two notes in the amounts of $102,000 and $68,000, respectively, secured by deeds of trust. The notes bear interest at a rate of 4.5% per annum with payment in full due in 60 months.

We will continue our program to catalog and digitize our library of historic mining maps and reports, so that our team can leverage the knowledge accumulated by individuals over the 150 years of mining activities in the Comstock Lode.

Comparative Financial Information

Below we set forth a summary of comparative financial information for the twelve months ended December 31, 2011 and 2010.

Twelve Months Ended December 31, 2011 and December 30, 2010:

	Twelve Months Ended December 31, 2011	Twelve Months Ended December 31, 2010	Difference
Revenue	$ 473,386	$ —	$ 473,386
Hotel operating costs	499,777	—	499,777
Depreciation and amortization	269,548	131,785	137,763
Reclamation, exploration and test mining expenses	9,324,097	3,806,896	5,517,201
General and administrative expenses	4,452,670	2,103,897	2,348,773
Consulting and professional expenses	1,481,835	1,021,238	460,597
Loss for operations	(15,554,541)	(7,063,816)	(8,490,725)
Loss on extinguishment of debt	—	(26,350,890)	26,350,890
Change in fair value of debt beneficial conversion feature and warrants	—	(20,606,245)	20,606,245
Change in fair value of contingent dividend payment	3,864,146	(2,869,504)	6,733,650
Interest expense	(80,630)	(3,291,274)	3,210,644
Interest Income	72,928	24,557	48,371
Other, net	15,785	(169,247)	185,032
Income tax benefit	76,081	—	76,081
Net Loss	$ (11,606,231)	$ (60,326,419)	$ 48,720,188

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 $473,386 during the year ended December 31, 2011. We did not produce or sell any gold or silver during the years ended December 31, 2011 and 2010.

Hotel operating costs were $499,777 for the year ended December 31, 2011. There were no hotel operating expenses for 2010. The hotel operating costs represents costs incurred for providing room, restaurant and bar services at the hotel.

Depreciation and amortization increased $137,763 for the year ended December 31, 2011 as compared to the year ended 2010. The increase was primarily related to the increase in depreciable building and mining equipment.

Reclamation, exploration and test mining expenses increased by $5,517,201 for the year ended 2011 as compared to the year ended 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 2011, including higher labor costs related to the expansion of the geological staff.

General and administrative expenses increased by $2,348,773 for the year ended 2011 as compared to the year ended 2010. This increase resulted primarily from stock grants issued to our outside directors valued at $980,000, $350,000 in payroll related costs related to the addition of professional staff in 2011, and $300,000 increase in marketing and financial services. Hospitality related general and administrative expenses were $79,547.

Consulting and professional expenses increased $460,596 for the year ended 2011 as compared to the year ended 2010. The increase resulted primarily from an increase in valuation services, audit services, risk management including Sarbanes Oxley and business consulting services.

Loss on extinguishment of debt of $26,350,890 was recorded during the year ended 2010, resulting from the exchange of all of our $29,394,705 in senior secured convertible debentures, promissory notes and associated interest obligations for our Series A Preferred Stock. We recorded a non-cash loss on the extinguishment of debt based on the fair value of the Series A Preferred Stock and the net carrying value of the senior secured convertible debentures and promissory notes on the date of the extinguishment. The difference in the respective fair value of $26,350,890 was recorded as a loss on the extinguishment of debt. There was no such transaction in 2011.

Change in fair value of debt beneficial conversion feature and warrants decreased $20,606,245 to zero in 2011. The convertible debentures were extinguished in the debt to equity exchange on October 20, 2010.

Change in fair value of contingent dividend payment decreased $6,733,650 from an expense of $2,869,504 in 2010 to an income of $3,864,146 in 2011. This decrease resulted from the change in the fair value calculation of the contingent dividend payment derivative liability associated with our convertible preferred stock. The change in fair value resulted primarily from a decrease in the value of common stock and, to a lesser extent, from a net decrease in outstanding convertible preferred shares of 6,690 with this contingent dividend feature.

Interest expense decreased $3,210,644 for the year ended 2011 as compared to the year ended 2010. This decrease resulted from extinguishing our senior secured convertible indentures, promissory notes and associated interest obligations during October 2010.

Interest income increased by $48,371 during the year ended 2011 as compared to the year ended 2010. This increase resulted from an overall increase in income generating cash and cash equivalents and available-for-sale securities during the year ended December 31, 2011 compared to the year ended December 31, 2010.

The Company recorded a deferred tax benefit of $76,081 for the year ended December 31, 2011. After consideration of the allocation and the projected consolidated results and available taxable differences from the acquisition of the Gold Hill Hotel, the Company determined it would be able to realized approximately $76,000 of tax benefits from its deferred tax assets. The Company did not recognize any other net tax benefits from its losses because full valuation allowances are provided on the Company’s net deferred tax assets.

Our Company is an Exploration Stage enterprise as defined by the SEC’s Industry Guide 7, and, in accordance with SEC’s Industry Guide 7, infrastructure expenditures such as haul roads, start-up costs and all drilling were expensed.

Liquidity and Capital Resources

On October 20, 2010, the Company raised approximately $35.75 million in gross proceeds (approximately $33.2 million, net of issuance costs) by issuing shares of a newly created Series B Preferred Stock to fund the Company’s business plan to accelerate mine development and production and enhance exploration and exchanged all of our $29.4 million in senior secured convertible debentures, promissory notes and related interest obligations for shares of a newly created Series A Preferred Stock. Through December 31, 2011, the Company used approximately $26.6 million of the net proceeds to meet its initial capital and operating needs, accelerate mine development and production, and continue exploration. This includes approximately $9 million of capital expenditures associated with leach pad expansion, new crushing unit, lab refurbishment, rolling stock and other mining equipment, approximately $10 million for mine development and exploration and approximately $1 million for hospitality segment capital expenditures. The remaining $6.6 million was used for general corporate purposes, including land acquisitions, environmental and permitting activities, third party validations, both technical and financial and other general and administrative activities. Actual transaction fees totaled approximately $3.18 million, including $2.6 million in preferred stock issuance costs.

In February 2012, the Company raised $17.25 million in gross proceeds (approximately $15.3 million, net of issuance costs) through an underwritten public offering of 9,078,948 shares of common stock at a price of $1.90 per share. The Company intends to use the net proceeds from the offering for exploration and development of the Company's primary target areas, that is the Lucerne, Dayton and Spring Valley Resource Areas, as well as for working capital and general corporate purposes.

Cash, cash equivalents and available-for-sale securities on hand at December 31, 2011 (prior to the February 2012 fund raising), totaled $9,166,297. Pending the use of the proceeds described above, the Company has invested all of the proceeds of the offerings in short-term deposits, including banker acceptances and short-term, high quality, interest bearing corporate, government-issued or government-guaranteed securities.

For the year ended December 31, 2011, we used cash from operating activities of approximately $11.6 million compared to $7.9 million in 2010. The increased use of operating cash flow of approximately $3.7 million in 2011 was primary as a result of increased use of cash for exploration expenses of $3.8 million and general administrative expenses of $1.3 million, partially offset by a $1.3 million increase in cash provided in operating activities from changes in working capital primarily from changes in accounts payable.

We did not generate revenues or operating cash flows from mining. Revenues and operating cash flow from the hospitality segment was minimal. We have yet to realize an operating profit at our Company. Although the Company is still an exploration stage mine, it believes that it has sufficient liquidity to fund the operations for the next 12 months. Management also believes it would be able to raise additional capital, if needed. Our recurring losses and negative cash flow from operations require ongoing assessment about our ability to continue as a going concern.

Critical Accounting Policies and Estimates

The SEC has requested that all registrants address their most critical accounting policies. The SEC has indicated that a “critical accounting policy” is one which is both important to the representation of the registrant’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on past experience and on various other assumptions our management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results will differ, and may differ materially from these estimates under different assumptions or conditions. Additionally, changes in accounting estimates could occur in the future from period to period. Our management has discussed the development and selection of our most critical financial estimates with the audit committee of our Board of Directors. The following paragraphs identify our most critical accounting policies:

Impairment of Mineral Rights and Properties, Plant and Equipment

The Company assesses its mineral rights and properties, plant and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in precious metal prices and significant downward revisions of estimated mineralization quantities. If the carrying value of an asset exceeds the future undiscounted cash flows expected from the asset, an impairment charge is recorded for the excess of carrying value of the asset over its estimated fair value.

Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation and technology improvements on operating expenses, and the outlook for global or regional demand conditions for gold and silver. However, the impairment reviews and calculations are based on assumptions that are consistent with the Company's business plans and long-term investment decisions.

Reclamation and Remediation Obligations

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and remediation costs. Reclamation obligations are based on when the spending for an existing environmental disturbance will occur. We review, on at least an annual basis, the reclamation obligation at each mine site in accordance with guidance for accounting for asset retirement obligations.

Reclamation obligations for inactive mines are accrued based on management's best estimate of the costs expected to be incurred at a site. Such cost estimates include, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines are reflected in earnings in the period an estimate is revised.

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.

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize the cost as an expense over the term of the vesting period. Judgment is required in estimating the fair value of share-based awards granted and their expected forfeiture rate. In addition, we recognize compensation expense for certain performance based equity instrument (share-based payments) over the performance period based on a periodic assessment of the probability that the performance criteria will be achieved. Our periodic assessment of the probability that the performance criteria will be achieved considers such factors as historical and future resource validation levels and future gold equivalent production levels. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Income Taxes

Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated future taxes to be paid. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates that we are using to manage the underlying businesses. Valuation allowances are recorded as reserves against net deferred tax assets by the Company when it is determined that net deferred tax assets are not likely to be realized in the foreseeable future.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized.

Derivative Instruments

The Company has recorded derivatives relating to contingent dividend payments on our Preferred Shares. These derivatives are recorded on the balance sheet at fair market value. Changes in the fair market value of derivatives are recorded in the consolidated statements of operations. Management applies judgment in estimating the fair value of derivative instruments that are sensitive to assumptions that include various unobservable market inputs. These inputs include variables such as derived volatility stock price, expected life, and probability of conversions. Variations in these factors could materially affect amounts credited or charged to earnings to reflect the changes in fair market value of derivatives.

Contingent Liabilities

Management also makes judgments and estimates in recording contingent liabilities. When a loss is considered probable in connection with litigation or contingent liabilities, we record our best estimate within the financial statements related to the contingency. If there is no best estimate, we record the minimum of the range. As additional information becomes available, we assess the potential liability related to the contingency and revise the estimates. Revision in estimates of the potential liabilities could materially affect our results of operations in the period of adjustment.

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

Financial Statement Schedule

Comstock Mining Inc. and Subsidiaries

The following consolidated financial statement schedule of Comstock Mining Inc. and subsidiaries is filed as part of this Form 10-K. All other schedules have been omitted because they are not applicable, not required, or the information is included in the consolidated financial statements or notes thereto.

Exhibits. The exhibits listed in the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Comstock Mining Inc.

We have audited the accompanying consolidated balance sheets of Comstock Mining Inc. (formerly GoldSpring, Inc.) and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Comstock Mining Inc. and subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah

March 30, 2012

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COMSTOCK MINING INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

	December 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,955,010	$ 25,383,309
Available-for-sale securities	2,211,287	4,410,237
Prepaid expenses	1,842,479	2,042,276
Total current assets	11,008,776	31,835,822
MINERAL RIGHTS AND PROPERTIES	4,869,683	3,598,976
PROPERTIES, PLANT AND EQUIPMENT, Net	9,383,723	625,621
RECLAMATION BOND DEPOSIT	721,748	721,748
RETIREMENT OBLIGATION ASSET	825,481	339,357
OTHER ASSETS	164,741	—
TOTAL ASSETS	$ 26,974,152	$ 37,121,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,755,381	$ 819,817
Accrued expenses	4,151,410	3,977,369
Long-term debt obligations – current portion	138,245	771,530
Total current liabilities	6,045,036	5,568,716
LONG-TERM LIABILITIES:		
Long-term debt obligations	1,298,836	680,881
Derivative liability - contingent dividend payment	1,025,000	4,873,192
Long-term reclamation liability	2,007,605	1,332,730
Total long-term liabilities	4,331,441	6,886,803
Total liabilities	10,376,477	12,455,519
COMMITMENTS AND CONTINGENCIES (Notes 9, 10, 11, 13, 14, 18, 21, and 22)		
STOCKHOLDERS' EQUITY:		
Common stock, $.000666 par value, 3,950,000,000 shares authorized, 28,990,630 and 21,154,663 shares issued and outstanding at December 31, 2011 and 2010,	19,308	14,089

respectively		
Convertible Preferred Stock; 50,000,000 shares authorized		
7.5% Series A-1 convertible preferred stock; $.000666 par value, 1,500,000 shares authorized, 22,637 and 21,775 shares issued and outstanding at December 31, 2011 and 2010, respectively	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 December 31, 2011 and 2010, respectively	4	5