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# **SUTTER GOLD MINING INC.**

**Unaudited Condensed Interim Consolidated Financial Statements**

**September 30, 2014 and 2013**

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*(Expressed in US Dollars unless otherwise noted)*

**NOTICE OF NO AUDITOR REVIEW OF  
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the unaudited condensed interim financial statements, they must be accompanied by a notice indication that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Sutter Gold Mining Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**

(Expressed in US Dollars)  
(Unaudited)

	Notes	As at September 30, 2014	As at December 31, 2013
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 155,900	\$ 386,400
Accounts receivable		5,500	2,900
Prepaid expenses		74,200	73,700
		235,600	463,000
<b>Non-current assets</b>			
Restricted investments	7	70,500	80,200
Mine under development	5	25,140,900	24,411,300
		25,211,400	24,491,500
<b>Total assets</b>		<b>\$ 25,477,000</b>	<b>\$ 24,954,500</b>
<b>Liabilities and Shareholders' Deficiency</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	\$ 1,885,900	\$ 477,100
Leases payable		67,000	67,000
Current portion of notes payable	9	10,446,600	2,221,100
		12,399,500	2,765,500
<b>Non-current liabilities</b>			
Reclamation liability	7	23,300	23,300
Other non-current liabilities		47,500	123,500
Long-term notes payable	9	29,163,700	34,797,400
		29,234,500	34,944,200
<b>Total liabilities</b>		<b>41,634,000</b>	<b>37,709,700</b>
<b>Shareholders' Deficiency</b>			
Preference shares	10	211,200	211,200
Common shares	10	27,655,000	27,262,300
Equity reserve – stock options		6,605,500	6,607,000
Deficit		(50,658,700)	(46,835,700)
<b>Total shareholders' deficiency</b>		<b>(16,187,000)</b>	<b>(12,755,200)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 25,447,000</b>	<b>\$ 24,954,500</b>
<b>Commitments</b>	16		
<b>Subsequent events</b>	18		

See the accompanying notes to the unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements are authorized for issue by the Board of Directors on November 24, 2014. They are signed on the Company's behalf by:

\_\_\_\_\_  
"Richard A. Winters" Director

\_\_\_\_\_  
"Mark T Brown" Director

**Sutter Gold Mining Inc.**  
**Condensed Interim Consolidated Statements of Income (Loss) and**  
**Comprehensive Income (Loss)**

(Expressed in US Dollars)  
(Unaudited)

	Notes	For the three months ended		For the nine months ended	
		September 30,		September 30,	
		2014	2013	2014	2013
<b>Revenue</b>					
Rental Income		\$ 3,600	\$ -	\$ 6,000	\$ -
		3,600	-	6,000	
<b>Operating expenses</b>					
Wages and benefits		195,400	387,500	1,073,600	1,425,700
Mine property holding costs		98,800	53,000	292,200	323,800
Professional and contract services		115,000	105,200	308,900	395,400
Office and administrative		88,700	80,800	323,900	398,200
Exploration		-	13,100	-	13,100
Share-based payments (recovery)	11	-	(7,900)	(1,500)	12,700
Depreciation		93,500	16,500	297,200	56,800
Rent and electricity		45,000	71,000	145,900	127,900
Loss on disposal of assets		-	44,300	-	44,300
Loss (gain) on foreign exchange		-	2,900	1,500	5,300
		636,400	722,100	2,441,700	2,803,200
<b>Loss from operations</b>		(6,32,800)	(722,100)	(2,435,700)	(2,803,200)
Interest income		200	200	400	1,000
Finance costs	9	(100)	(136,200)	(900)	(622,400)
Other income		5,000	7,500	8,100	7,500
Interest expense		(540,000)	(110,800)	(1,394,900)	(306,000)
Mark to market adjustment to note payable	9	-	(7,389,700)	-	18,542,900
		(534,900)	(7,629,000)	(1,387,300)	17,623,000
<b>Net income (loss) and total comprehensive income (loss) for the year</b>		\$ (1,167,700)	\$ (8,351,100)	\$ (3,823,000)	\$ 14,819,800
<b>Net income (loss) per share:</b>					
Basic and diluted income (loss) per share attributable to common shareholders	12	\$ (0.01)	\$ (0.07)	\$ (0.03)	\$ 0.12
Weighted average number of common shares outstanding – basic and diluted	12	123,158,654	120,937,013	122,076,700	120,365,570

See the accompanying notes to the unaudited condensed interim consolidated financial statements.

**Sutter Gold Mining Inc.**

**Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency**

(Expressed in US Dollars)

(Unaudited)

	Notes	Preference Shares		Common shares		Equity Reserve – Stock Options	Deficit	Total Shareholders' Deficiency
		Number of shares	Amount	Number of shares	Amount			
<b>Balance at January 1, 2013</b>	10	254,414	\$ 211,200	121,182,032	\$27,126,800	\$6,596,400	\$(64,776,000)	\$(30,841,600)
Shares issued for private placement	10	-	-	473,301	142,000	-	-	142,000
Share-based payments	11	-	-	-	-	12,700	-	12,700
Private placement issuance costs					(6,500)			(6,500)
Net income and total comprehensive income							14,819,800	14,819,800
<b>Balance at September 30, 2013</b>	10	254,414	\$ 211,200	121,655,333	\$27,262,300	\$6,609,100	\$(49,956,200)	\$(15,873,600)
<b>Balance at January 1, 2014</b>	10	254,414	\$ 211,200	121,655,366	\$27,262,300	\$6,607,000	\$(46,835,700)	\$(12,755,200)
Shares issued for debt settlement	10	-	-	2,221,641	392,700	-	-	392,700
Share-based payments	11	-	-	-	-	(1,500)	-	(1,500)
Net loss and total comprehensive loss							(3,823,000)	(3,823,000)
<b>Balance at September 30, 2014</b>	10	254,414	\$ 211,200	123,877,007	\$27,655,000	\$6,605,500	\$(50,658,700)	\$(16,187,000)

See the accompanying notes to the unaudited condensed interim consolidated financial statements.

**Sutter Gold Mining Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**

(Expressed in US Dollars)  
(Unaudited)

		<b>For the nine months ended ended September 30,</b>	
	<i>Note</i>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>			
<b>Net income (loss)</b>		\$ (3,823,000)	\$ 14,819,800
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation		297,200	56,800
Amortization of loan fees		-	622,400
Share-based payments (recovery)	11	(1,500)	12,700
Loss on disposal of property, plant and equipment		-	44,300
Mark to market adjustment to note payable	9	-	(18,542,900)
Interest expense		1,394,900	306,000
		(2,132,400)	(2,680,900)
Accounts receivable		(2,600)	22,000
Prepaid expenses		(500)	(37,800)
Accounts payable and accrued liabilities		13,600	(23,300)
Other LT notes payable		(76,000)	
Cash generated from operations		(2,197,900)	(2,720,000)
Interest paid		-	(169,100)
Net cash used in operating activities		(2,197,900)	(2,889,100)
<b>Cash flows from investing activities</b>			
Change in restricted investments		9,700	(3,200)
Payments for mine under development	5	(1,026,800)	(7,733,700)
Net cash used in investing activities		(1,017,100)	(7,736,900)
<b>Cash flows from financing activities</b>			
Proceeds from note payable	9	2,591,800	10,175,100
Loan issuance costs			(400,000)
Proceeds from the issuance of shares	10	392,700	142,000
Share issuance costs			(6,500)
Net cash provided by financing activities		2,984,500	9,910,600
<b>Net decrease in cash</b>		(230,500)	(715,400)
<b>Cash - Beginning of the period</b>		386,400	1,245,200
<b>Cash - End of the period</b>		\$ 155,900	\$ 529,800

See the accompanying notes to the unaudited condensed interim consolidated financial statements.

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

(Expressed in US Dollars except for per share information)

### **1. GENERAL INFORMATION**

Sutter Gold Mining Inc. ("SGMI" or "the Company") is a Canadian resource company engaged in the exploration and development of mineral properties. . The Company is listed on the TSX Venture exchange in Canada and OTCQX International exchange in the United States of America.

On December 29, 2004, the Company completed a reverse take-over by acquiring Sutter Gold Mining Company ("SGMC") of Riverton, Wyoming. At that time, approximately 4% of SGMC's shareholders did not tender their existing shares in exchange for new common shares of the Company. The Company allotted 1,787,847 common shares to be issued to these shareholders and effective September 30, 2014 and 2013, 718,352 of these common shares still remain to be allotted to SGMC's shareholders should they elect to tender their shares in the future.

The Company is established to conduct operations on mining leases and to produce gold from the Lincoln Project, a gold mining prospect in the Mother Lode mining district of Amador County, California.

On August 22, 2008, RMB Resources Ltd. ("RMB"), a trustee for the Telluride Investment Trust, completed the acquisition of 39,062,072 common shares of the Company from U.S. Energy Corp. ("USE") for an aggregate purchase price of C\$5,400,000. On August 22, 2011, RMB exercised all of its 6,384,700 outstanding warrants. As at September 30, 2014 and 2013, RMB owned 58,216,820 of the 123,877,007 and 121,655,366 outstanding common shares of the Company, respectively.

### **2. BASIS OF PRESENTATION - GOING CONCERN**

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. There can be no assurance that such additional funds can be raised when required even if the Company has been successful in the past in doing so. If management is unable to obtain new funding the Company may be unable to continue its operations and amounts realized for assets might be less than amounts reflected in these interim consolidated financial statements.

The Company has generated significant losses since its inception which has resulted in an accumulated deficit of \$50,658,700 as at September 30, 2014 and \$46,835,700 as at December 31, 2013. The current financial and economic marketplace has made access to financing through the equity markets more difficult and this has created uncertainty as to the Company's ability to fund ongoing operations for the next operating period and to participate in ongoing exploration and development projects. These material uncertainties cast significant doubt on the Company's ability to continue as a going concern. The Company has entered into a bridge loan facility arrangement with a related party to cover short-term operating capital requirements as well as the completion of the Lincoln Project. As at September 30, 2014, the Company has a working capital deficiency of \$12,163,900 compared to a working capital deficiency as at September 30, 2013 of \$20,379,700. These interim consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these interim consolidated financial statements adjustments to the carrying values of assets and liabilities and statement of financial position, which could be material, may be required.

Also see Notes 13(b) and 17.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. These consolidated financial statements including comparatives, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") effective for the period ended September 30, 2014, using the significant accounting policies outlined below.

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

*(Expressed in US Dollars except for per share information)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(b) Basis of preparation**

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information and for financial instruments classified as available-for-sale which are stated at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

#### **(c) Principles of consolidation**

These consolidated financial statements of the Company include the accounts of the Company and those of its subsidiaries SGMC and USECC Gold LLC, both Wyoming corporations. All intercompany profits, expenses, transactions and balances have been eliminated upon consolidation.

#### **(d) Accounting standards and interpretations issued but not yet effective**

*Effective for the Company's financial years commencing on January 1, 2014 and 2015*

IFRS 9, *Financial Instruments, Classification and Measurement*, originally issued in November 2009 and reissued in October 2010, applies to annual periods beginning on or after January 1, 2015. IFRS 9 is the first phase of three phases to replace IAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The Company has not early adopted this standard.

The Company is currently evaluating the impact that the adoption of the amendments and standard will have on its consolidated financial statements. Based upon its current facts and circumstances, the Company does not expect these new and revised standards to have a material impact on its consolidated financial statements except for change in disclosure and in presentation.

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") which supersedes AS 11 - *Construction Contracts*, IAS 18 - *Revenue*, IFRIC 13 - *Customer Loyalty Programs*, IFRIC 15 - *Agreements for the Construction of Real Estate*, IFRIC 18 - *Transfers of Assets from Customers*, and SIC 31 - *Revenue - Barter Transactions involving Advertising Services*. IFRS 15 establishes a single five-step model framework for determining the nature, amount timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the standard is expected to have on its financial statements.

#### **(e) Share-based payment**

The Company has in effect a share option plan ("the Plan"), which allows Company employees, directors and officers to acquire shares of the Company. The Company recognizes employee compensation expense, with a corresponding increase in equity, based upon the fair value of the options outstanding at the statement of financial position date for options granted to employees of the Company. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.



## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

*(Expressed in US Dollars except for per share information)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(f) Deferred income taxes**

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and

#### **(f) Deferred income taxes (continued)**

differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### **(g) Property, plant and equipment**

Land improvements, buildings and equipment and vehicles are carried at cost net of accumulated depreciation. Residual values and estimated useful lives are reviewed at least annually. Depreciation is provided principally by the straight-line method over estimated useful lives as follows:

Land Improvements	3-5 years
Buildings	10-20 years
Equipment and vehicles	3-5 years

#### **(h) Mineral properties**

Mineral properties are carried at cost and include the acquisition and pre-production costs related to the properties. These costs will be depreciated on a unit-of-production basis over the estimated recoverable reserves if the properties are brought into commercial production, as determined by using measured and indicated resources. If the properties are abandoned or if the carrying value is determined to be in excess of possible recoverable amounts, they will be written off or written down, respectively.

The cost of mineral properties includes any cash consideration paid, and the fair market value of shares issued, if any, on the acquisition of property interests. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values. All

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

*(Expressed in US Dollars except for per share information)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

mineral lease payments are at the option of the company. The Company does not accrue mineral lease payments.

All expenditure on the construction, installation or completion of infrastructure facilities is capitalized within “mines under development”. Costs capitalized under “mines under development” include pre-production revenues and

#### **(h) Mineral properties (continued)**

expenditures prior to achieving commercial production. Commercial production is a convention for determining the point at which time a mine is producing at a sustainable commercial level after which production costs are no longer capitalized and are reported as operating costs. After production starts, all assets included in “Mines under development” are transferred to “Producing mines”.

#### **(i) Exploration and evaluation**

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or asset acquisition which are recognized as assets. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of loss and comprehensive loss.

#### **(i) Exploration and evaluation (continued)**

Capitalized costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and the commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mineral property and development assets within property, plant and equipment. As at September 30, 2014 and 2013, there are no mineral costs capitalized.

#### **(j) Impairment of non-financial assets**

At each financial position reporting date the carrying amounts of the Company’s non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

*(Expressed in US Dollars except for per share information)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The recoverability of amounts shown for mineral properties and deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying

#### **(j) Impairment of non-financial assets (continued)**

amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **(k) Foreign currency translation**

The functional currency and, unless otherwise indicated, the presentation currency of the Company is the United States ("US") Dollar. All figures presented have been rounded to the nearest hundreds. The Canadian parent corporations' transactions, not in USD, are translated into US Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the statement of financial position dates;
- non-monetary assets and liabilities at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period.

Exchange gains and losses arising from the conversion of foreign currency balances and transactions are reported in profit and loss as they occur.

#### **(l) Financial assets and liabilities**

The Company's financial assets and liabilities include cash and cash equivalents, restricted investments, accounts receivable, accounts payable and accrued liabilities, warrants and note payable.

Financial assets and liabilities are classified into the following specified categories: available-for-sale ("AFS") financial assets, loans and receivables and other liabilities. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company classified its cash, restricted investments and accounts receivable as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and notes payable, except those at fair value through profit or loss, are classified as other financial liabilities.

The warrant liability is classified as fair value through profit or loss ("FVTPL"). The warrant liability is a derivative whose fair value is determined using the Black-Scholes option pricing model and its value is derived from the underlying security. Gains and losses on remeasurement are recorded in the consolidated statement of loss and comprehensive loss.

The Company has designated the RMBAH prepaid gold facility as a financial liability at fair value through profit or loss. The Company recognized a mark to market gain or loss on this debt based on the difference between the spot price of repayable gold ounces as at the date of the statement of financial position and the aggregate of the agreed upfront payment price per ounce plus the delivery price per ounce.

#### **Impairment of financial assets:**

Financial assets are assessed for indicators of impairment at each financial position reporting date except those at FVTPL. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

*(Expressed in US Dollars except for per share information)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered

#### **(l) Financial assets and liabilities (continued)**

uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

#### **Financial instruments recorded at fair value:**

Financial instruments recorded at fair value on the consolidated statements of financial position, are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

#### **(m) Cash**

Cash consists of cash deposits in banks and certificates of deposits. The Company does not hold any asset backed commercial paper.

#### **(n) Asset retirement obligations**

Environmental expenditures that are associated with the retirement of tangible long lived assets are recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. These obligations are capitalized in the accounts of the related long lived assets and are depreciated over the useful lives of the related assets. It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or costs estimates. Changes in estimates are accounted for prospectively from the period in which these estimates are revised.

The operations of the Company have been and may in the future, be affected in varying degrees by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable.

As at September 30, 2014 and 2013, the Company does not have any asset retirement obligations other than reclamation liabilities as accrued.

#### **(o) Equity**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the fair value of the proceeds received, net of direct issue costs.

#### **(p) Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

September 30, 2014 and 2013

*(Expressed in US Dollars except for per share information)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(q) Expenses**

##### *Borrowing costs*

Borrowing costs related to the costs of developing mining properties and constructing new facilities are capitalized and included in the carrying amounts of the related assets until mining properties reach commercial production and facilities are ready for their intended use. All other borrowing costs are recognized in profit or loss in the period in which they incurred.

#### **(r) Income (loss) per share**

Basic income (loss) per common share is calculated by dividing the income (loss) attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted income (loss) per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Stock options, shares to be issued, and warrants outstanding are not included in the computation of diluted income (loss) per share if their inclusion would be anti-dilutive.

### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

#### **(s) Segment reporting**

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company operates in one business segment, namely, mineral exploration.

The preparation of these unaudited condensed interim consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based upon historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### *Sources of estimation uncertainty*

Significant assumptions about the future and the other sources of estimation uncertainty that management has made at the statements of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i. The application of determining the useful lives and residual values of property, plant and equipment are estimates by management based on assumptions about future events. Estimates and assumptions made may change if new information becomes available. New information may become available during the use of these assets that causes the Company to adjust its estimates.
- ii. The ability to recover the carrying values of its mine under development are around the fair value less costs to sell and value in use of these assets. Estimates and assumptions made may change if new information becomes available. New information may become available during the use of these assets that causes the Company to adjust its estimates.

## **Sutter Gold Mining Inc.**

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### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)**

#### **(s) Segment reporting (continued)**

- iii. The Company uses the Black Scholes pricing model to estimate the fair value of stock options granted and warrants issued. Option pricing models require the input of subjective assumptions including the expected price volatility, interest rates and expected life of the option or warrant granted. Changes in the input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide an accurate single measure of the actual fair value of the Company's stock options granted and warrants.
- iv. The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and to make assumptions about the future performance of the Company. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.
- v. The ultimate amount of the site restoration and reclamation costs and the mine closure costs that will have to be incurred is uncertain due to the fact that the laws and regulations are continually changing, the uncertainty regarding the extent of the liability, and the magnitude of costs required to discharge this liability. In addition, the timing of the settlement of the obligation is uncertain.

#### *Critical accounting judgments*

Significant judgments about the future and the other sources of judgment uncertainty that management has made at the statements of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from judgments made, relate to, but are not limited to, the following:

- i. The Company uses judgment in determining whether there are facts and circumstances suggesting that the carrying amount of its mine under development may exceed its recoverable amount.
- ii. The Company uses judgment in determining its ability to continue as a going concern in order to discharge its current liabilities via raising additional financing
- iii. The Company uses judgment in determining the classification of its RMBAH prepaid gold facility as a financial liability measured at FVTPL.
- iv. The Company uses judgment in determining its functional currency. IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21") defines the functional currency as the currency of the primary economic environment in which an entity operates. IAS 21 requires the determination of functional currency to be performed on an entity by entity basis, based on various primary and secondary factors. In identifying the functional currency of the parent and of its subsidiaries and jointly controlled entities, management considered the currency that mainly influences the cost of undertaking the business activities in each jurisdiction in which the Company operates. The Company has determined that its functional currency is the United States Dollars.

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### 5. MINE UNDER DEVELOPMENT

In 2011, the Company commenced construction of its Lincoln Mine Project. Below is a summary of the costs capitalized as at December 31, 2013 and September 30, 2014.

	Land Improvements	Buildings	Equipment and Vehicles	Development Costs	Total
<b>Cost</b>					
Balance January 1, 2013	4,707,400	4,752,300	5,121,100	2,961,600	17,542,400
Additions	3,206,100	250,200	1,293,500	3,272,500	8,022,300
Disposals	(6,300)	(87,200)	(351,700)	-	(445,200)
Balance at December 31, 2013	7,907,200	4,915,300	6,062,900	6,234,100	25,119,500
Balance January 1, 2014	7,907,200	4,915,300	6,062,900	6,234,100	25,119,500
Additions	455,600	5,100	112,900	453,200	1,026,800
Balance at September 30, 2014	8,362,800	4,920,400	6,175,800	6,687,300	26,146,300

	Land Improvements	Buildings	Equipment and Vehicles	Development Costs	Total
<b>Depreciation</b>					
Balance at January 31, 2013	18,600	231,300	732,800	-	982,700
Additions	28,600	8,800	62,300	-	99,700
Disposals	(6,300)	(73,400)	(294,500)	-	(374,200)
Balance at December 31, 2013	40,900	166,700	500,600	-	708,200
Balance at January 31, 2014	40,900	166,700	500,600	-	708,200
Additions	199,300	50,200	31,800	-	281,300
True-up	21,600	(4,200)	(1,500)	-	15,900
Balance at September 30, 2014	261,800	212,700	530,900	-	1,005,400

	Land Improvements	Buildings	Equipment and Vehicles	Development Costs	Total
<b>Carrying amounts</b>					
At December 31, 2013	\$ 7,866,300	\$ 4,748,600	\$ 5,562,300	\$ 6,234,100	\$ 24,411,300
At September 30, 2014	\$ 8,101,000	\$ 4,707,700	\$ 5,644,900	\$ 6,687,300	\$ 25,140,900

During the period ended September 30, 2014, the Company accrued \$1,393,862 of interest expense related to the Senior Secured Loan Facility (See Note 9). Of this amount, the Company capitalized interest expense of \$161,200 related to the construction of the Lincoln Mine Project.

On March 4, 2014, the Company made the decision to place the project on care and maintenance to conserve resources. As a result, the mining contractor has been demobilized and non-essential personnel, principally mill labor, have been laid off.

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### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

#### Sutter Gold Project, California

##### Lincoln and Comet Properties

The Sutter Gold Project – the Lincoln and Comet properties are situated on a 551-acre block of mining claims and surface rights 45 miles east-southeast of Sacramento, California, in the central part of the 121-mile-long Mother Lode gold belt.

The Comet and Lincoln leases were amended in 2003. Both leases have terms of 30 years, broken down into ten year segments carrying a 4% production royalty or minimum annual payments as described below for the Lincoln and Comet properties. An additional 0.5% net smelter return royalty is held by a consultant to a lessee and was in place prior to the acquisition of the properties and covers all the properties in the Lincoln Mine Project. Lease payments are made at the Company's option and therefore no accrual has been made. The payments have been made through years 18 and 11 for the Lincoln and Comet leases respectively.

<u>Years</u>	<u>Annual Payments</u>	
	<u>Lincoln</u>	<u>Comet</u>
1-10	\$ 1,200	\$ 2,400
11-20	\$ 2,400	\$ 4,800
21-30	\$ 3,600	\$ 7,200
31-40 (10 year option)	\$ 4,800	\$ 9,600
41-Thereafter (annual option)	\$ 4,800	\$ 9,600

##### *Eureka Property*

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land immediately adjacent to the Company's Lincoln Mine properties in California, called the Eureka Property. The lease term is 30 years, broken down into ten year segments carrying a 4% production royalty or a minimum annual payment. As of September 30, 2014, 12,000 common shares had been issued to the Eureka Property's owner for the first year's payment and the second through fourth years'. Lease payments are made at the Company's option, no accrual is made. All payments have been made through year 10 of the lease.

<u>Years</u>	<u>Annual Payments</u>
1-10	\$ 2,400
11-20	\$ 3,600
21-30	\$ 4,800
31-40 (10 year option)	\$ 6,000
41-Thereafter (annual option)	\$ 6,000

##### *Keystone Property*

Effective August 1, 2003, the Company entered into a lease ("Third Amendment to Mining Lease and Option") with Keystone Mining Corporation. The lease covers certain properties at the Sutter Gold Project. The lease term is 30 years, broken down into ten years segments. A royalty of 5% of the net profits on production exists on these properties. A new lease would have to be entered into by both parties at the end of the 30 year term. The "net profits" will be determined by subtracting from gross mineral revenues an amount equal to 105% of numerous categories of costs and expenses. Lease payments are made at the Company's option and therefore no accrual has been made. The payments have been made through year 11 of the lease.

<u>Years</u>	<u>Annual Payments</u>
1-10	\$ 5,000
11-20	\$ 7,000
21-30	\$ 10,000



## **Sutter Gold Mining Inc.**

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### **6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)**

#### *Cecchetti Trust*

Effective May 20, 2009, the Company entered into a Mineral Lease Agreement with the Cecchetti Trust. The lease covers 162 acres adjoining and contiguous with existing Sutter Gold Properties and requires annual base lease payments of \$5,000 for the first 10 years of the lease. The lease automatically renews and extends at the end of the first term for 2 successive 10 year terms unless cancelled in writing by the company. A Production Royalty of 4% of saleable product produced on these leases will be paid during mining operations. Lease payments are made at the Company's option and therefore no accrual has been made. The payments have been made through year 5 of the lease.

#### *Fancher Trust*

On June 14, 2012, the Company entered into a mineral exploration and purchase option agreement with the Fancher Trust. The agreement covers approximately one mile of strike length adjoining and contiguous with existing Sutter Gold properties. The agreement also requires annual base option payments of \$140,000 over the 5-year option period. The agreement gives the Company mineral exploration rights during the option period. Option payments will apply to the purchase price provided that the Company exercises their option to purchase the property. Lease payments are made at the Company's option and therefore no accrual has been made. The Company decided to discontinue this option agreement; therefore no payment was made in 2013.

#### Mexican property

On October 26, 2006, the Company entered into an Exclusive Option Agreement with The Alamo Group, Inc. ("The Alamo Group") of Scottsdale, Arizona, to acquire a 100% interest (less royalty provisions) in the Santa Teresa mineral concession located in the historic El Alamo gold mining district southeast of Ensenada, Mexico for a maximum of C\$500,000 and a minimum of C\$100,000 in work commitments. Required cash payments have been reduced to C\$280,000 based on the total amount of work commitments completed. These cash payments are shown below.

The Company made an initial payment of \$13,300 (C\$15,000) on signing the Exclusive Option Agreement and issued 111,111 of its shares at a price of C\$0.36 (C\$40,000) on signing the Definitive Agreement on February 7, 2007. Required annual payments to The Alamo Group for the three years were as follows:

- February 7, 2008 - C\$50,000 (paid);
- February 7, 2009 - C\$75,000 (paid);
- February 7, 2010 - C\$100,000 (paid);

The Alamo Group will retain a 3% net smelter royalty if gold is selling for C\$650/ounce or greater and 1.5% if gold is selling for less than C\$650/ounce. The Company has the right to purchase one half of the net smelter royalty for C\$1 after The Alamo Group has received C\$2,000,000 in royalties from commercial operations on the concession.

On March 29, 2007, the Company signed a letter of intent and on August 7, 2007 signed a Joint Venture Agreement with Premier Gold Mines Ltd. ("Premier") to jointly explore the Company's Santa Teresa mineral concession. Premier is to earn an initial 50% interest in the project by issuing 100,000 common shares (received) to the Company, completing \$1.5 million in exploration and acquisition within two years and reimbursing the Company for all option payments due to the vendor (total of C\$280,000). The Company has been reimbursed for payments made February 7, 2008 through February 7, 2010. Premier can earn an additional 15% interest in the property (to a 65% interest) by paying a further \$500,000 to the Company, payable in cash or shares, and conducting an additional \$4,000,000 in exploration on the property.

### **7. RESTRICTED INVESTMENTS**

Future reclamation and mine closure costs will be the responsibility of the Company and are based on legal and regulatory requirements. The laws and regulations are continually changing and are generally becoming more restrictive. The Company believes it is in compliance with applicable laws and regulations and expects to make future expenditures to

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### 7. RESTRICTED INVESTMENTS (CONTINUED)

comply with these laws and regulations. The current estimated reclamation liability of \$23,300 is secured by two a reclamation bonds which total \$35,000 as at September 30, 2014 and \$27,000 as at September 30, 2013.

At September 30, 2014 the Company had one Certificate of Deposit which totaled \$30,000 and for the same period in 2013; the Company had two Certificates of Deposit held with US Bank totaling \$50,000 as collateral for the Company's credit cards. Due to the decreased activity and personnel the company closed one of the Certificates of Deposit.

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	September 30, 2014	December 31, 2013
Accounts payable	\$ 16,500	\$ 110,700
Salaries and other compensation	165,900	182,900
Interest on senior secured loan facility	1,555,100	-
Accrued expenses	148,400	183,800
	<u>\$ 1,885,900</u>	<u>\$ 477,400</u>

### 9. LOAN FACILITY

The current and long-term portion of the note payable as at September 30, 2014 and December 31, 2013 are as follows:

	As at September 30, 2014			As at December 31, 2013		
	Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion	Total
RMBAH "SSTLF"	\$ 10,446,600	\$ 29,163,600	\$ 39,610,200	\$ 2,221,100	\$ 34,797,400	\$ 37,018,500
	<u>\$ 10,446,600</u>	<u>\$ 29,163,600</u>	<u>\$ 39,610,200</u>	<u>\$ 2,221,100</u>	<u>\$ 34,797,400</u>	<u>\$ 37,018,500</u>

#### RMBAH Prepaid Gold Facility ("PPGF")

In June 2011, the Company entered into a PPGF with RMBAH to provide a secured prepaid gold loan in the amount of \$20 million. Proceeds were used to repay the existing Loan Facility in the amount of \$6.6 million with the residual of the loan being applied to the ongoing cost of the development and construction of the Lincoln Mine project. The PPGF was subject to a 5% loan origination fee which was paid in 2012 upon the Company's first draw down of the bridge loan.

The Company commenced drawing down the facility in July, 2011 and as at December 31, 2012, the full amount of the PPGF facility of \$20,000,000 had been drawn down.

Originally the Company would deliver to the lender approximately 50% of the project's estimated monthly gold production subject to a minimum of 1,000 ounces per month beginning at the end of the 13th month from the first month of the draw down. In July 2012, the Company negotiated a new pricing and delivery schedule. Under the new schedule, the Company's gold delivery increased from 53,027 ounces to 54,942 ounces, with the first delivery to be in January 2013 and the last delivery to be in October 2017. Under the new schedule the upfront payment price was decreased from \$377 per ounce to \$364 per ounce. The delivery price of \$942 remained unchanged from the original delivery schedule. The Company did not make its required deliveries in 2013.

The Company has recorded mark to market gains on this debt of \$nil as at September 30, 2014 and \$25,932,600 at September 30, 2013 as it had designated the PPGF as a financial liability at fair value through profit or loss. The mark to market gain represented the difference between the spot price of repayable gold ounces as at September 30, 2013 and the aggregate of the agreed upfront payment price plus the delivery price.

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### **9. LOAN FACILITY (CONTINUED)**

The loan was secured by substantially all the assets of the Company.

#### **RMBAH Bridge Loan Facility (“BLF”)**

On October 18, 2012, the Company completed an additional secured short-term bridge loan in the maximum amount of \$12 million from RMBAH and was subject to 5% loan origination fee of available funds of \$600,000. This was later amended in May 2013 to increase its available funds to \$20 million, resulting in an additional \$400,000 loan origination fee. During the periods ended September 30, 2014 and 2013, the Company recognized loan amortization expenses of \$nil and \$331,600, respectively, related to these loan fees.

Subsequent to the amendment, the BLF was available for monthly drawdowns dependent on meeting certain operating criteria. The BLF had a repayment date of September 30, 2014. The Company was allowed to prepay the BLF without penalty at any time, subject to 5 days’ notice and with a minimum prepayment amount of US\$250,000. As at December 23, 2013, \$19,969,300 had been drawn down on the BLF.

The interest rate on advances from October 12, 2012 to March 31, 2013 was LIBOR plus 11.5% per annum and, from April 1, 2013 to September 30, 2013, was LIBOR plus 15% per annum. Beginning July 1, 2013 the interest rate was amended to Libor plus 10% per annum. Interest was payable monthly in cash in arrears.

During the periods ended September 30, 2014 and 2013 the Company paid \$0 and \$1,186,800, respectively, in interest expense related to the BLF of which the Company capitalized \$0 and \$890,100 related to the construction of the Lincoln Mine Project and expensed the remaining \$0 and \$296,700 as finance costs.

The security granted by the Company was consistent with that under the existing PPGF with RMB.

On December 23, 2013 the Company entered into a new agreement for a SSTLF with RMBAH to replace both the existing PPGF and BLF agreement, as amended and restated.

The existing forward positions associated with the PPGF were closed out at market according to the close out protocol agreed between the Company and RMBAH with the resulting mark-to-market value of the PPGF obligations forming part of the principal amount to be restructured in the SSTLF.

#### **RMBAH Senior Secured Term Loan Facility (“SSTLF”)**

The refinanced amounts were as follows:

- PPGF \$17.05 million
- BLF \$19.97 million

The total amount available under the SSTLF is \$40 million.

The SSTLF will bear interest at Libor plus 5% per annum accrued monthly for 2014 and payable quarterly beginning December 31, 2014 and continuing until repayment of the SSTF.

Scheduled principal repayments of the SSTLF will commence December 31, 2014 on a quarterly basis through March 31, 2018 based on the following percentages of the outstanding SSTLF balance at that time:

- Quarter ended December 31, 2014 – 6.0%
- Quarters ended March 31, 2015 through December 31, 2016 – 6.5%
- Quarters ended March 31, 2017 through June 30, 2017 - 7.5%
- Quarters ended September 30, 2017 through March 31, 2018 – 9.0%
- Any balance remaining thereafter - payable on March 31, 2018

## **Sutter Gold Mining Inc.**

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### **9. LOAN FACILITY (CONTINUED)**

Mandatory pre-payments of the SSTLF will be made equal to 75% of the available free cash flow after all project and corporate costs, interest and scheduled repayments on a quarterly basis. The SSTF may also be pre-paid by the Company at any time without penalty in part or in whole. Upon commencement of commercial production the Company may enter into gold hedging arrangements with RMBAH at its discretion over a maximum of 60% of forecast production over the term of the SSTF.

Scheduled principal repayments of the SSTLF will commence December 31, 2014 on a quarterly basis through March 31, 2018. Mandatory pre-payments of the SSTLF will be made equal to 75% of the available free cash flow after all project and corporate costs, interest and scheduled repayments on a quarterly basis. The SSTF may also be pre-paid by the Company at any time without penalty in part or in whole. Upon commencement of commercial production, the Company may enter into gold hedging arrangements with RMBAH at its discretion over a maximum of 60% of forecast production over the term of the SSTF.

The key benefits of restructuring the PPGF were to crystallize and reduce the obligations of the Company in a transparent manner, with the mark-to-market value at close \$2.95 million less than the nominal \$20 million borrowed at inception under the PPGF. The close out of the PPGF allows for all future production to be sold at spot rather than at a blend of the \$942/oz delivery price under the PPGF and the spot price. This improves expected cash flow for debt service and allows for the consideration of new hedging at a higher price point that would provide a greater degree of downside gold price protection during debt repayment. In addition, the SSTLF reduces the interest rate on funds borrowed under the BLF from Libor plus 10% to Libor plus 5%.

As at September 30, 2014 the Company owed \$1,555,100 in interest on the SSTLF, \$1,393,900 was expensed and \$161,200 has been capitalized.

The loan is secured by substantially all of the assets of the Company.

### **10. SHARE CAPITAL AND OTHER EQUITY**

#### *(a) Authorized, issued and outstanding common and preferred shares*

As at September 30, 2014 and December 31, 2013, the Company had an unlimited number of authorized common shares without par value, and outstanding were 123,877,007 and 121,655,366 shares, respectively. Included in this amount originally were 1,787,847 of the Company's common shares allotted to the former shareholders of SGMC for tendering their ownership of SGMC, representing 4% of the 44,577,367 common shares at a deemed value of C\$0.26 per common share issued on December 29, 2004 on the acquisition of SGMC. As at September 30, 2014 and 2013, 718,352 of these shares have not been tendered. All outstanding shares are fully paid.

On December 14, 2012, the Company completed the first tranche of a non-brokered private placement of 3,389,934 common share units at a price of C\$0.30 for proceeds of \$1,017,000. On January 15, 2013, the Company completed the final tranche of the non-brokered private placement of 473,334 common share units at a price of C\$0.30 for proceeds of \$142,000.

Series 1 Convertible Redeemable Preference shares are convertible at any time by the holder into common shares of the Company on a one for one basis and are redeemable at any time by the Company at a price of C\$1 for each share redeemed. These shares are non-interest bearing. Issued and outstanding were 254,414 shares as at September 30, 2014 and 2013.

#### *(b) Warrants*

As at September 30, 2014 and December 31, 2013 no warrants were outstanding.

### **11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN**

**Sutter Gold Mining Inc.**

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During the periods ended September 30, 2014 and 2013, the Company expensed (recovered) \$(1,500) and \$12,700, respectively, of share-based payments related to its Employee Share Option Plan (“Plan”).

During the period ended September 30, 2014 no stock options were exercised.

A summary of the status of the Plan as at September 30, 2014 and December 31, 2013, and changes during the period and year ended, respectively, on those dates is presented below.

	Options	Weighted Average Exercise Price C\$
Balance outstanding December 31, 2012	5,678,000	0.17
Options forfeited	(1,489,000)	0.19
Balance outstanding December 31, 2013	4,189,000	0.17
Options forfeited	(1,330,000)	0.12
Balance outstanding September 30, 2014	2,859,000	0.19

As at September 30, 2014, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

As at September 30, 2014					
Grant Date	Options Issued	Exercise Price C\$	Vesting Terms	Expiry date	
June 1, 2011	24,000	0.18	A	June 1, 2016	
July 19, 2011	1,275,000	0.18	B	July 19, 2016	
November 1, 2011	1,500,000	0.20	C	November 1, 2016	
November 11, 2011	60,000	0.20	C	November 11, 2016	
	2,859,000				

- A. Options vest 1/3 at grant date, another 1/3 1 year from grant date and the remaining vest 2 years from grant date.
- B. Options vest 100% at grant date.
- C. Options vest 50% at grant date and 100% 1 year from grant date

The fair value of the options granted were measured based on the Black-Scholes Option Pricing Model. The expected volatility is estimated by considering historic weighted average share price volatility.

The inputs used in the measurement of fair value at the grant date of the share-based payments were as follows:

Grant Date	Fair Value at Grant Date	Share Price at Grant Date	Exercise Price	Expected Volatility (weighted average)	Expected Life (weighted average)	Expected Dividends	Risk Free Interest Rate
June 1, 2011	C\$0.155	C\$0.18	C\$0.18	171%	5	-	1.73%
July 19, 2011	C\$0.151	C\$0.18	C\$0.18	172%	5	-	1.64%
November 1, 2011	C\$0.149	C\$0.20	C\$0.20	162%	5	-	1.09%
November 11, 2011	C\$0.177	C\$0.20	C\$0.20	161%	5	-	1.09%

**11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN (CONTINUED)**

**Sutter Gold Mining Inc.**

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The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at September 30, 2014:

Outstanding					Exercisable		
Exercise Price C\$	Options Outstanding	Expiry date	Weighted Average Remaining Life (years)	Weighted Average Exercise Price C\$	Options Exercisable	Weighted Average Exercise Price C\$	
\$0.18	24,000	June 1, 2016	2.17	\$0.18	24,000	\$0.18	
\$0.18	1,275,000	July 19, 2016	2.30	\$0.18	1,275,000	\$0.18	
\$0.20	1,500,000	November 1, 2016	2.59	\$0.20	1,500,000	\$0.20	
\$0.20	60,000	November 11, 2016	2.62	\$0.20	60,000	\$0.20	
	2,859,000				2,859,000		

**12. INCOME (LOSS) PER SHARE****(a) Basic**

Basic income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of ordinary shares in issue during the year.

	<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>
Net income (loss) attributable to common shareholders	\$ (3,823,000)	\$ (8,208,600)
Weighted average number of common shares in issue	122,076,700	120,365,570
Basic income (loss) per share	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>

**(b) Diluted**

Diluted loss per share has not been presented as this calculation is anti-dilutive.

**13. FINANCIAL RISK MANAGEMENT****(a) Credit risk management**

The Company's credit risk is primarily attributable to cash and restricted investments and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and restricted investments have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is remote. Accounts receivable consists primarily of goods and services tax due from the federal government of Canada.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company

**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Sutter Gold Mining Inc.**

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manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities, and leases payable are due within the current operating period. The following are the contractual maturities of the Company's financial obligations as at September 30, 2014 and December 31, 2013:

	<b>September 30, 2014</b>				
	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	1,885,900	1,885,900	1,885,900	-	-
Leases payable	67,000	67,000	67,000	-	-
Notes payable	39,610,300	39,610,300	10,446,600	29,163,700	-
Other long term liabilities	47,500	47,500	-	52,300	-
Reclamation liability	23,300	23,300	-	-	23,300
Mineral leases	-	406,400	24,000	110,000	272,400

	<b>December 31, 2013</b>				
	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	477,400	477,400	477,400	-	-
Leases payable	67,000	67,000	67,000	-	-
Notes payable	37,018,500	37,018,500	2,221,100	34,797,400	-
Other long term liabilities	123,500	123,500	-	123,500	-
Reclamation liability	23,300	23,300	-	-	23,300
Mineral leases	-	425,600	22,800	115,000	287,800

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity. The Company is exposed to interest rate risk related to its SSTLF (see Note 9). The SSTLF incurs interest based on the 30-day LIBOR rate plus 5% during 2014. A 10% increase in the LIBOR rate would have increased the Company's interest expense to the amount of \$2,970,773.

**(d) Foreign exchange risk**

The Company's property interests in United States and Mexico make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the US Dollar, the Canadian Dollar and Mexican Pesos. The Company had no transactions denominated in the Mexican Peso in the periods ended September 30, 2014 and 2013. The Company does not invest in foreign currency contracts to mitigate the risks. The Company has not presented a sensitivity analysis table for the foreign currency cash balances as at September 30, 2014 and 2013 as any fluctuation is not material to the Company's financial statements.

**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## Sutter Gold Mining Inc.

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### (e) Fair value of financial assets and liabilities

The book values of the cash, accounts receivable, restricted investments and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The fair value of the mark-to-market adjustment related the RMBAH facility was determined as being the difference between the spot price of repayable gold ounces as at September 30, 2014 and 2013 and the aggregate of the agreed upfront payment price per ounce plus the delivery price of per ounce. (Refer also to Note 9. Loan Facility)

### (f) Fair Value Hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments measured at fair value on the consolidated balance sheet are valued:

- Level I - measurement based on quoted prices (unadjusted) observed in active market for identical assets or liabilities;
- Level II - measurement based on inputs other than quoted prices included in Level I that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level III - measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Company had no assets or liabilities valued at fair value as at September 30, 2014. The following table shows the fair value hierarchy for the same period 2013.

	As at September 30, 2013			
	Level I	Level II	Level III	Total
RMBAH Facility	\$ -	\$ 21,152,700	\$ -	\$ 21,152,700
RMBAH Bridge Loan	17,675,200	-	-	17,675,200
Total	\$ 17,675,200	\$ 21,152,700	\$ -	\$ 38,828,900

## 14. CAPITAL RISK MANAGEMENT

The Company manages its common shares, options and warrants less cash as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. (Refer also to Note 2. Basis of Presentation - Going Concern)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, extend the due date of existing debt, enter into new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary, depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition. These maturities are selected with regards to the expected timing of expenditures from continuing operations.

## 14. CAPITAL RISK MANAGEMENT (CONTINUED)



## Sutter Gold Mining Inc.

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The Company is currently assessing financing alternatives for its mine development plans and operations through its current operating period. The Company expects to have sufficient capital resources for its planned operational expenses, financing obligations and administration overhead expenses for 2014.

### 15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions. RMB is also a related party due to its large share ownership and its financing to the Company (see Note 9).

During the periods ended September 30, 2014, the Company accrued interest of \$1,555,100 to RMB Australia Holdings in respect to the Loan Facility as outlined in Note 9. The Company paid no interest for the period ended September 30, 2014 and \$1,186,800 for the same period 2013 on the bridge loan as outlined in Note 9.

The remuneration of key management personnel of the Company for the periods ended September 30, 2014 and 2013 was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Short-term employee benefits	\$ 76,200	\$ 96,300	\$ 340,700	\$ 681,600
Share based compensation*	-	-	-	-
	\$ 76,200	\$ 96,300	\$ 340,700	\$ 681,600

\*There have been no options granted to officers and directors since 201.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consist of the Company's directors, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

On July 31, 2013, the Company reached an agreement its former Chief Executive Officer to settle the severance owed with respect to her termination as Chief Executive Officer of the Company. The Company has agreed that the severance will be payable in four installments: (i) USD\$83,333 payable in cash immediately; (ii) USD\$138,889 to be paid on each of January 15, 2014, January 15, 2015 and January 15, 2016, either in cash or in common shares of the Company. The determination of whether any of the future payments noted above will be made in cash or in shares will be at the sole discretion of the Company. The deemed price of the common shares that may be issued in connection with the above noted installments will be the average closing share price of the Company during the 10 trading days up to and including January 15 of each applicable year, but in any event, no more than 475,000 common shares will be issued (equating a deemed price of approximately \$0.30 per share) in each of the three installments.

In January 2014 a share issuance of 475,000 common shares was made.

On March 31, 2014, the Company reached an agreement with its Chief Financial Officer to settle the severance owed with respect to his termination as Chief Financial Officer of the Company. The Company has agreed that the severance will be payable immediately in two installments: (i) USD\$83,334 payable in cash immediately; (ii) USD\$316,666 was paid in common shares of the Company in April 2014. The deemed price of the common shares that were issued was based on the noon exchange rate for USD to CAD at the Bank of Canada on April 2, 2014. As a consequence, 1,746,641 common shares were issued (equating to a deemed price of approximately \$0.20 per share).

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

### 16. COMMITMENTS

## **Sutter Gold Mining Inc.**

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On May 3, 2007, the Company settled a Contingent Stock Purchase Warrant liability with U.S. Energy Corp. by the issuance of a Net Profits Interest royalty ("NPIR") of 5% until an amount of \$4.6 million is repaid, and granting a 1% NPIR thereafter. NPIR is defined as the price received from the sale of gold or other mineralized product that is mined, saved and sold, less mining, milling, processing or refining and transportation costs and allowable taxes and royalties. No amounts have been accrued as a liability as at September 30, 2014 and December 31, 2013 as there was no present obligation as nothing has been sold.

### **17. TYHEE TRANSACTION**

On July 4, 2014 the Company and Tyhee Gold ("Tyhee") entered into an agreement with RMBAH, whereby, subject to certain conditions, Tyhee will acquire the following: all of the issued and outstanding shares of Sutter Gold Mining Inc. ("Sutter") currently held by RMB; all of the issued and outstanding shares of Sutter that are to be issued to RMB by Sutter upon the proposed conversion of US\$8 million of RMB's current debt exposure to Sutter; and, approximately US\$17 million of RMB's additional debt exposure to Sutter. Upon completion of the Transaction, Tyhee will hold approximately 73 per cent of Sutter's issued and outstanding shares.

Under the terms of the transaction Tyhee proposes to acquire all of RMB's current interests in Sutter as follows:

1. Tyhee will acquire all of RMB's current stock position in Sutter (58,216,820 common shares) at C\$0.02 per share, paid in cash on closing of the Proposed Transaction;
2. RMB will reduce its debt exposure to Sutter by US\$8 million, from no more than US\$40 million to no more than US\$32 million by converting the US\$8 million into Sutter common shares at the maximum discount to the Market Price (as defined by the policies of the TSX Venture Exchange (the "TSX-V") of the Sutter common shares. Tyhee will then acquire such shares at C\$0.02 per share, paid in cash on closing of the Proposed Transaction; and,
3. RMB will assign to Tyhee up to US\$17 million of RMB's debt exposure, with RMB continuing to retain a US\$15 million loan to Sutter, in consideration for the following:
  - i. 90 million Tyhee common shares issued from treasury;
  - ii. US\$4 million in cash;
  - iii. a covenant by Tyhee to invest funds to restart production of Sutter's Lincoln-Comet mine, to a maximum of US\$17 million; and
  - iv. a covenant by Tyhee to cause Sutter to make interest payments, principal repayments, and mandatory prepayments on the retained US\$15 million loan from RMB to Sutter on a first ranking basis.

This transaction does not require a vote by the shareholders of either Tyhee or Sutter.

Closing of the Transaction is subject to customary closing conditions, including receipt of the approval of the TSX-V and any other regulatory approvals. In addition, the closing of the Transaction is subject to the completion of certain debt restructurings by Sutter, noted below, and the completion of a minimum of US\$15 million financing by Tyhee, also discussed below.

The Implementation Agreement contains a non-solicitation covenant on the part of RMB and Sutter, subject to customary fiduciary out provisions. The Implementation Agreement also provides Tyhee with the right to match any potential third party proposal. Sutter is permitted to terminate the Implementation Agreement under certain conditions, including the payment of a \$1.5 million break fee to Tyhee. In addition, Tyhee has agreed to pay a \$750,000 fee to RMB, if the concurrent financing is not completed on or before September 30, 2014 (subsequently extended to November 30, 2014), and an additional fee of \$1.5 million, if Tyhee does not complete the additional \$17 million funding or bring the project to commercial production within a reasonable time period.

### **17. TYHEE TRANSACTION (CONTINUED)**

## **Sutter Gold Mining Inc.**

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### Concurrent Financing

In connection with the Proposed Transaction, Tyhee intends to complete, through a previously announced (see Tyhee release dated November 26, 2013) special purpose vehicle (the "SPV"), a concurrent financing of a minimum of US\$15 million. The SPV would provide a loan or loans to Tyhee or its wholly owned US subsidiary (the "**SPV Loan**"). The SPV would issue Convertible Debentures having the following terms:

- (a) Face value: US\$1,000 denominations.
- (b) Term: Five (5) years.
- (c) Interest Rate: Eight (8) percent per annum, payable annually in cash or in ounces of gold, at the election of the holder of the Convertible Debenture.
- (d) Security: Secured against the assets of Tyhee NWT Inc., Tyhee's wholly owned Northwest Territories subsidiary.
- (e) Conversion: Principal to be convertible to Tyhee common shares at \$0.30 per Tyhee common share.
- (f) Redemption: Principal amount to be redeemable by Tyhee after 24 months, subject to payment of premium.
- (g) In addition, if at any time after 24 months from the issuance of the Convertible Debentures gold trades at greater than US\$2,000 per ounce for a period of 30 consecutive business days or more, the holder would have the option, subject to additional conditions to be determined, to convert the principal amount outstanding on the SPV Loan to gold, at the rate of one ounce for each US\$2,000 outstanding (delivery terms and timing of repayment remain to be determined), or payment in cash of an amount equal to the principal owing.

The completion of the transaction was extended to November 30, 2014. RMB reserves the right to extend this further, but there is no guarantee they will do so.

### Terms of Loans to Sutter

- (a) US\$15 million loan from RMB to Sutter—RMB will retain a secured US\$15 million amortizing loan to Sutter. RMB and Sutter would amend and restate the terms of its existing US\$40 million debt facility to provide for the following terms:
  - US\$15 million principal amount;
  - interest at 12% per annum, capitalising until July 31, 2015 and paid monthly commencing on August 31, 2015;
  - repayment in up to 48 consecutive monthly installments of equal amounts, subject to certain conditions and adjustments, commencing on August 31, 2015; and,
  - such loan would be senior secured debt to Sutter and any other Sutter debt would be fully subordinated on terms satisfactory to RMB.
- (b) Approximately US\$17 million note payable by Sutter to Tyhee – RMB will assign to Tyhee US\$17 of existing indebtedness owing under the promissory note dated December 31, 2013 issued by Sutter to RMB and Tyhee and Sutter will enter into a new promissory note on terms similar to RMB.

## **17. TYHEE TRANSACTION (CONTINUED)**

**Sutter Gold Mining Inc.**

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- (c) Funds to Restart Production -Further advances ("**Tyhee Advances**") to Sutter by Tyhee or its related entities would be made up to US\$17 million on the same terms as the SPV Loan that would be provided to Tyhee, except that (i) interest on Tyhee Advances would accrue at 12% per annum; and (ii) security for the Tyhee Advances will be equal ranking to the Tyhee note described above.

**18. SUBSEQUENT EVENTS**

None