

**SUTTER GOLD MINING INC.**  
**Management's Discussion and Analysis**  
**For the period ended June 30, 2014**  
**(Containing information up to and including August 26, 2014)**

This Management's Discussion and Analysis ("MD&A") is an overview of the activities of Sutter Gold Mining Inc. and its subsidiaries (together, "Sutter" or "the Company") for the period ended June 30, 2014. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanied notes for the period ended June 30, 2014 and Sutter's audited consolidated financial statements for the year ended December 31, 2013. Both of these referenced financial statements, the Company's statutory filings, and additional information is available on SEDAR [www.sedar.com](http://www.sedar.com) and on the Company's website [www.suttergoldmining.com](http://www.suttergoldmining.com).

All currency amounts are expressed in US dollars unless otherwise noted. The effective date of the MD&A is August 26, 2014. This MD&A contains statements that constitute "forward-looking statements" and other cautionary notices (Refer to "Forward Looking Statements").

For the periods ended June 30, 2014 and 2013 the unaudited condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

Further information regarding the Company's California mineral resources can be found in the Form 43-101 Technical Report "Mineral Resource Estimate, Sutter Gold Project, Amador County, California", dated February 5, 2008, by consulting geologist and Independent Qualified Person Mark Payne, P. Geo. Calif. #7076. Resources were defined according to Canadian Institute of Mining ("CIM") Definitions for Mineral Resources, and are compliant with NI 43-101, Standards of Disclosure for Mineral Projects.

### **Forward Looking Statements**

Certain sections of this MD&A provide, or may appear to provide, a forward looking orientation with respect to the Company's activities and its future results. Consequently, certain statements contained in this MD&A constitute expressed or implied forward looking statements. Terms including, but not limited to, "anticipate", "believe", and "expect" may identify forward looking statements. Forward looking statements, while they are based on the current knowledge and assumptions of the Company's management, are subject to risks and uncertainties that may cause or contribute to the actual results being materially different than those expressed or implied. Readers are cautioned not to place undue reliance on any forward looking statement that may be in this MD&A.

The forward looking statements that may be made in this MD&A relate only to events or information as of the date indicated above. Except as required by law, we undertake no obligation to update or to revise publically any forward looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

The following forward looking statements have been made in this MD&A:

- Plans for development of the Company's Lincoln Mine Project in California;
- Management's estimates and expectations of future activities and results;
- The Company's assumptions and estimates used in its technical report filed on June 16, 2011, as well as the potential resource estimates and interpretations from that technical report;
- Expectations regarding the ability to raise capital;
- Reference to future commodity prices; and ,
- The completion of the transaction between the Company, Tyhee Gold and RMB Australia Holdings Limited (see Subsequent Events).

## Business Overview

The following discussion is qualified in its entirety by both the section entitled Risks and Uncertainties and by the Forward-looking Statements provision that precedes this outlook section.

Sutter's goal is to excel as a precious metals company specializing in the discovery, definition and development of gold deposits, building mineral resources and advancing projects into valuable assets capable of becoming profitable mining operations. Sutter seeks to achieve this goal by strategically focusing activities and cash expenditures on projects that will enhance shareholder value while maintaining safe work conditions, protecting the environment, and building strong relationships with local communities and other stakeholders.

The Company's primary asset is the Lincoln Mine Project ("Project") and adjacent mineral properties located in the historic Mother Lode District 45 miles southeast of Sacramento, California. The Lincoln Mine Project is situated on a 551-acre block of surface and mineral rights owned in fee or leased from fee owners, in the central part of the 121-mile-long Mother Lode gold belt. The Company's property consists of 3.5 miles of contiguous mineral rights within a 10-mile section of the Mother Lode belt. The Lincoln Mine Project's current documented gold resource consists of 223,044 indicated ounces and 458,914 inferred ounces (see news release "Sutter Gold Announces Resource Update for Sutter Gold Project" dated February 13, 2008).

Sutter's Board of Directors approved the development of the Lincoln Mine Project, based upon the conclusions of a Preliminary Economic Assessment ("PEA") (see news releases "Sutter Gold Announces Positive Preliminary Economic Assessment for the Lincoln Mine Gold Project" dated May 4, 2011 and "Sutter Gold Announces Positive Production Decision for the Lincoln Mine Gold Project and Agrees to a \$20 Million Prepaid Gold Project Finance Facility" dated June 22, 2011).

Owing to market volatility and subsequent project schedule modification, the Company implemented various management and personnel changes in the third quarter of 2013 (see news release "Sutter Gold Implements Cost Cutting Measures and Provides Development Update" dated July 3, 2013). Approximately one-third of the staff positions at the Lincoln Mine site were eliminated in July 2013, along with the position of Chief Operating Officer. Richard Winters of RMB Resources and a Director since July 2008 was appointed interim President and CEO. Dr. Leanne Baker, who served as President and CEO and Director since November 2011 continues as a member of the Board. In the first Quarter of 2014, due to unresolved issues with the mill and thickener, the decision was made to temporarily suspend operations at the Lincoln Project in order to conserve resources (see news release "Sutter Gold Mining Provides Project Update and Announces it Will Temporarily Suspend Operations at the Lincoln Mine Project", dated March 4, 2014). The Project's ultimate success is very sensitive to market conditions and it will require additional financing (see section titled "Liquidity and Capital Resources")

Longer term the Company plans to produce gold from the Lincoln-Comet deposit by initiating state-of-the-art, environmentally compatible, mining operations on a modest scale similar to the scale of historic mines in the Mother Lode but with a contemporary understanding of the myriad of issues associated with such endeavors. Engineering, design and economic evaluations have been ongoing for the past three years towards this end.

The Company believes that there is significant potential for extending the mine life beyond 5 years within the Lincoln-Comet vein zones targeted in the PEA. Several mineralized zones in both the Lincoln-Comet and Keystone areas remain open down plunge to the southeast and at depth. Sutter's Board of Directors approved a \$1.2 million exploration program to further identify mineral resources in the immediate Lincoln and Comet areas (see news release "Sutter Gold Plans Drilling to Expand Resources at its Lincoln Mine Project and Provides Development Update" dated October 13, 2011). Results from the exploration program are encouraging, including the discovery of previously unknown mineralization (see news releases dated January 18, 2012, March 6, 2012, May 1, 2012 and August 16, 2012).

The Project, when in full operation according to the PEA, would produce approximately 22,300 ounces of gold per year. It is anticipated that mining operations would occur 20 hours each day, 7 days per week, and 350 days per year.

Additional opportunities for increasing mine production may be realized through shift scheduling to operate 24 hours per day and/or by adding crews and headings within the mine. Milling operations under the PEA are planned for 24 hours per day, 5 days per week, and 250 days per year. These operational shifts and hours allow flexibility for troubleshooting and maintenance. Also, they create opportunity to increase productivity by merely adding additional operational hours to the milling. The daily mill production call from the mine would be 150 tons (on a seven day per week mine operation), with the mill processing 210 tons per each operating day. The number of stope panels necessary to achieve 150 tons per day would be 8, with a contingency allowance suggesting 13 available panels to produce from. With dilution and loss, the expected average mill head grade would be 0.46 ounces per ton gold. Mill recovery was estimated at 96%. Payment for gold in concentrate and dorè was estimated at 85% and 99.75% respectively, of contained gold value at a spot price of \$1,100 per ounce. Total direct employment, including contractor staffing, was estimated at 108 persons, during full production. Additional information regarding PEA mine and mill design specifics is presented below, in the section titled “Company History and Mineral Properties”.

The existing mineral resource greatly exceeds the scope of the initial Lincoln Mine Project operation envisioned by the PEA. With the completion of the initial mine/mill construction in sight, the Company may look towards the incorporation of additional known mineral resource into an operating mine plan. The design of the newly constructed facilities includes opportunities for expansion and increased capacity. The expansion of operations to include additional known mineral resources would leverage the existing infrastructure and may allow for the incorporation of additional unknown mineral resources in close proximity, should they exist. Further work towards defining the economic impact of any additional development and infrastructure necessary to incorporate those mineral resources into a subsequent phase of mine operations is necessary prior to any additional disclosure.

Sutter Gold Mining Inc. is a Vancouver, British Columbia company, with an operations office in Sutter Creek, California. The Company’s shares trade on the Toronto Stock Exchange (TSX-V) under the symbol “SGM” and on the U.S. Over-the-Counter market (OTCQX) under the symbol “SGMNF”.

### **Selected Annual Financial Information**

*(Expressed in US dollars)*

	<b>For the years ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total revenues	\$ -	\$ -	\$ -
Operating costs and expenses	\$ 3,564,900	\$ 6,023,100	\$ 3,515,900
Net income (loss)**	\$ 17,940,300	\$ (18,428,900)	\$ (10,423,300)
Net loss per share – basic and diluted***	\$ 0.15	\$ (0.16)	\$ (0.10)

	<b>As at December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total assets	\$ 24,954,500	\$ 18,208,900	\$ 6,961,800
Non-current financial liabilities	\$ 34,944,200	\$ 31,208,000	\$ 17,718,400
Cash dividends	\$ -	\$ -	\$ -

\*\* Amounts reflect both net loss before discontinued operations and extraordinary items and net loss as the Company did not have any discontinued operations or extraordinary items during the periods presented.

\*\*\* Amounts reflect both loss per share – basic and diluted before discontinued operations and extraordinary items and net loss per share – basic and diluted as the Company did not have any discontinued operations or extraordinary items during the periods presented.

## Selected Quarterly Financial Information

(Expressed in US Dollars)

(Prepared in accordance with IFRS)

(Unaudited)

	For the periods ended		
	2014	June 30, 2013	2012
<b>Revenue</b>			
Revenue	\$ 2,400	\$ -	\$ -
<b>Operating expenses</b>			
Wages and benefits	878,200	1,038,200	974,900
Exploration	-	-	523,000
Mine and property holding costs	193,400	270,800	480,100
Professional & contract services	193,900	290,200	278,100
Office & administrative	235,200	317,400	294,700
Share-based payments (recovery)	(1,500)	20,600	107,800
Depreciation and amortization	203,700	40,300	50,800
Rent and electricity	100,900	56,900	56,800
Feasibility study	-	-	13,200
Loss on disposal of assets	-	44,300	-
Loss on foreign exchange	1,500	2,400	2,600
	1,805,300	2,081,100	2,782,000
<b>Loss from operations</b>	(1,802,900)	(2,081,100)	(2,782,000)
Interest income	300	800	2,200
Interest expense	(854,900)	(189,000)	-
Loan transaction fees	(900)	(492,400)	-
Other income	3,100	-	-
Mark to market adjustment RMB facility	-	25,932,600	(7,044,100)
	(852,400)	25,252,000	(7,041,900)
<b>Net income ( loss) and total comprehensive income ( loss) for the year</b>	\$(2,655,300)	\$23,170,900	\$(9,823,900)

	As at June 30,		
	2014	2013	2012
Total assets	\$ 25,593,400	\$ 21,607,600	\$ 12,755,200
Non-current financial liabilities	\$ 36,674,900	\$ 29,122,200	\$ 36,152,500
Cash dividends	\$ -	\$ -	\$ -

## Summary of Quarterly Results, Q2 2012-Q1 2014

Expressed In \$	June 2014	March 2014	December 2013	September 2013	June 2013	March 2013	December 2012	September 2012
Operating revenues	-	-	-	-	-	-	-	-
Net income (loss)	<b>(1,528,300)</b>	(1,127,000)	3,120,500	(8,351,100)	<b>20,718,000</b>	2,452,900	3,936,400	(12,541,400)
Basic gain (loss) per share	<b>(0.01)</b>	(0.01)	0.03	(0.07)	<b>0.17</b>	0.02	0.03	(0.10)
Diluted gain (loss) per share	-	-	0.03	-	<b>0.17</b>	0.02	0.03	-

### Results of Operations Three Months Ended June 30, 2014 and 2013

Sutter's net loss for the period ended June 30, 2014 was \$1,528,300 or \$(0.01) per common share compared with net income of \$20,718,000 or \$0.17 per share during the same period in 2013. The major reason for the decreased income was the refinancing of the Company's Rand Merchant Bank Australia Holdings ("RMBAH") prepaid gold facility ("RMBAH Facility"). The Company had designated the RMBAH Facility as a financial liability at fair value through profit or loss as permitted by IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of the refinancing, the Company no longer recorded a non-cash mark-to-market gain on this debt versus a gain of \$22,320,200 for the period ended June 30, 2013. The mark-to-market gains and losses are the difference between the spot price of repayable gold ounces as at June 30, 2013 and the aggregate of the agreed upfront payment price plus the delivery price. On December 23, 2013 this loan was repaid with a new term facility which is described in the following Loan Facility section. Interest expense for the period ended June 30, 2014 totaled \$520,000 compared to \$120,300 for the same period in 2013. This increase of interest expense was due to the increase of the balance on the senior secured term loan facility and to ceasing the practice of capitalizing interest in 2014.

Operating costs and expenses for the periods ended June 30, 2014 and 2013 were \$1,012,300 and \$1,122,300, respectively. Wages and benefits decreased to \$553,500 from \$595,000 for the periods ended June 30, 2014 and 2013, respectively, due to a reduction in employees throughout 2013. Professional and contract services were \$109,000 for the period ended June 30, 2014, compared with \$139,900 for the same period in 2013, due to decreased investor relations, environmental, legal and information technology services. Office and administrative costs decreased \$23,200 from \$163,300 in 2013 to \$140,100 in 2014 due to decreased insurance and communication costs along with decreased travel due to fewer employees. Share-based compensation decreased and was \$nil and \$9,000 for the periods ended June 30, 2014 and 2013, respectively, as a result of no new stock options being issued to employees and directors in 2013 or 2014 and forfeitures of existing options. Mine and property holding costs decreased by \$47,300 and was \$76,700 and \$124,000 for the periods ended June 30, 2014 and 2013, respectively, as a result of decreased permitting activity. Offsetting these decreases was an increase in rent and electricity. Rent and electricity was \$93,700 and \$30,100 for the periods ended June 30, 2014 and 2013, respectively, caused by increased electrical bills due to the increased usage in the shop, mill and mine.

### Results of Operations Six Months Ended June 30, 2014 and 2013

Sutter's net loss for the period ended June 30, 2014 was \$2,655,300 or \$(0.02) per common share compared with net income of \$23,170,900 or \$0.19 per share during the same period in 2013. The major reason for the decreased income was the refinancing of the Company's Rand Merchant Bank Australia Holdings ("RMBAH") prepaid gold facility ("RMBAH Facility"). The Company had designated the RMBAH Facility as a financial liability at fair value through profit or loss as permitted by IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of the refinancing, the Company no longer recorded a non-cash mark to market gain on this debt versus a gain of

\$25,932,600 for the period ended June 30, 2013. The mark-to-market gains and losses are the difference between the spot price of repayable gold ounces as at June 30, 2013 and the aggregate of the agreed upfront payment price plus the delivery price. On December 23, 2013 this loan was repaid with a new term facility which is described in the following Loan Facility section. Interest expense for the period ended June 30, 2014 totaled \$854,900 compared to \$189,000 for the same period in 2013. This increase of interest expense was due to the increase of the balance on the senior secured term loan facility and to ceasing the practice of capitalizing interest in 2014.

Operating costs and expenses for the periods ended June 30, 2014 and 2013 were \$1,805,300 and \$2,081,100, respectively. Wages and benefits decreased to \$878,200 from \$1,038,200 for the periods ended June 30, 2014 and 2013, respectively, due to a reduction in employees throughout 2013. Professional and contract services were \$193,900 for the period ended June 30, 2014, compared with \$290,200 for the same period in 2013, due to decreased investor relations, environmental, legal and information technology services. Office and administrative costs decreased \$82,200 from \$317,400 in 2013 to \$235,200 in 2014 due to decreased insurance and communication costs along with decreased travel due to fewer employees. Share-based compensation decreased and was \$(1,500) and \$20,600 for the periods ended June 30, 2014 and 2013, respectively, as a result of no new stock options being issued to employees and directors in 2013 or 2014 and forfeitures of existing options. Mine and property holding costs decreased by \$77,400 and was \$193,400 and \$270,800 for the periods ended June 30, 2014 and 2013, respectively, as a result of decreased permitting activity. Offsetting these decreases was an increase in rent and electricity. Rent and electricity was \$100,900 and \$56,900 for the periods ended June 30, 2014 and 2013, respectively, caused by increased electrical bills due to the increased usage in the shop, mill and mine.

### Liquidity and Capital Resources

The following table summarizes the Company's operating; investing and financing cash flow activity for the periods ended June 30, 2014, 2013, and 2012:

	<b>For periods ended</b>		
	<b>June 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash used in operating activities	\$1,653,000	\$2,308,400	\$2,388,900
Cash used in investing activities	\$1,006,800	\$5,584,100	\$3,613,400
Cash provided by financing activities	\$2,517,800	\$7,023,700	\$8,133,100

The Company has generated significant losses since its inception which have resulted in an accumulated deficit of \$49,491,000 and \$41,605,100 as at June 30, 2014 and 2013, respectively. The current financial and economic marketplace has made access to financing through the equity markets extremely difficult and this has created significant uncertainty as to the Company's ability to fund ongoing operations for the next operating period and to participate in and to complete ongoing exploration and development projects. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. The Company has entered into a senior secured term loan facility arrangement with a related party to cover short-term operating capital requirements. As at June 30, 2014, the Company has a working capital deficiency of \$3,639,000 compared to a working capital deficit as at June 30, 2013 of \$17,832,500. These financial statements do not reflect adjustments to the carrying values of assets and liabilities which may be required should the Company be unable to raise adequate financing or meet current obligations and therefore be unable to continue as a going concern.

The following table summarizes the Company's working capital deficiency and cash and cash equivalent balances as at June 30, 2014 and 2013:

	<b>As at June 30, 2014</b>	<b>As at June 30, 2013</b>
Working capital (deficiency)	\$ (3,639,000)	\$ (17,832,500)
Cash	\$ 244,400	\$ 376,400

The following are the contractual maturities of the Company's financial liabilities as at June 30, 2014:

	<b>June 30, 2014</b>				
	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 1,326,500	\$ 1,326,500	\$ 1,326,500	\$ -	\$ -
Leases payable	\$ 67,000	\$ 67,000	\$ 67,000	\$ -	\$ -
Notes payable	\$ 39,143,600	\$ 39,143,600	\$ 2,544,300	\$ 36,599,300	\$ -
Other long term liabilities	\$ 52,300	\$ 52,300		\$ 123,500	
Reclamation liability	\$ 23,300	\$ 23,300	\$ -	\$ -	\$ 23,300
Mineral leases	\$ -	\$ 406,400	\$ 24,000	\$ 110,000	\$ 272,400

At June 30, 2014, Sutter had a working capital deficiency of \$3,639,000, compared with a working capital deficiency of \$17,832,500 at June 30, 2013. The main cause of the decrease in working capital is the Company's consolidation of the gold facility and bridge facility into the senior secured term loan facility. This effectively removed the mark to market and the short term bridge and made the repayments to be spaced over the next five years. As at June 30, 2014 the Company had drawn \$39,143,600 on the senior secured term loan Facility.

### Loan Facility

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

	<b>As at June 30, 2014</b>			<b>As at December 31, 2013</b>		
	Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion	Total
RMBAH "SSTLF"	\$ 2,544,300	\$36,599,300	\$39,143,600	\$ 2,221,100	\$34,797,400	\$37,018,500
	\$ 2,544,300	\$36,599,300	\$39,143,600	\$ 2,221,100	\$ 34,797,400	\$37,018,500

### 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 June 30, 2014 and \$25,932,600 at June 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 June 30, 2013 and the aggregate of the agreed upfront payment price plus the delivery price.

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 (\$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 June 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 and June 30, 2013, \$19,969,300 and \$12,000,000 had been drawn down on the BLF, respectively. 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 5% per annum. Interest was payable monthly in cash in arrears.

During the periods ended June 30, 2014 and 2013 the Company paid \$0 and \$753,800, respectively, in interest expense related to the BLF of which the Company capitalized \$nil and \$565,300 related to the construction of the Lincoln Mine Project and expensed the remaining \$nil and \$188,400 as finance costs.

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

### **RMBAH Senior Secured Term Loan Facility ("SSTLF")**

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 marked-to-market value of the PPGF obligations forming part of the principal amount to be restructured in the 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

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%.

The Company accrued \$1,015,300 in interest on the SSTF as at June 30, 2014.

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

The Company raised \$135,500 in equity financing in the period ended June 30, 2013. However, significant additional funding is required to rectify the working capital deficiency, for ongoing operating expenses, and to complete the development of the mine in order to achieve commercial production.

The Company is attempting to raise these funds through either additional debt financing and/or the sale of equity investments, and/or by attracting a strategic industry partner to provide additional capital to complete the mill construction and the mine development in anticipation of putting the mine into production. There can be no assurance these attempts will be successful.

As at June 30, 2014 and 2013, the deficit was \$49,491,000 and \$41,605,100, respectively. The increase in this deficit was the result of the closing out of the PPGF in December, 2013 which was partially offset by the net loss of \$2,655,300 for the period ended June 30, 2014.

## Mine Under Development

As of June 30, 2014, the cost of the Company's mine under development totaled \$26,146,300 partially offset by accumulated depreciation of \$911,900. For the periods ended June 30, 2014 and 2013, depreciation expense totaled \$203,700 and \$40,300, respectively. During the six months ended June 30, 2014, the Company invested \$1,026,800 in mine under development compared with \$4,375,400 during the same period in 2013. The 2014 decreased additions relate to managements decision to put the company into Care and Maintenance at the end of the first quarter 2014. Substantially all expenditures below are for the Lincoln Mine Project.

Below is a summary of the Company's mine under development additions for the period ended June 30, 2014 and December 31, 2013:

	<u>Land Improvements</u>	<u>Buildings</u>	<u>Equipment and Vehicles</u>	<u>Development Costs</u>	<u>Total</u>
<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 June 30, 2014	8,362,800	4,920,400	6,175,800	6,687,300	26,146,300

## Reclamation Bond

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 comply with these laws and regulations. The Company updates reclamation and closure/post closure costs annually, in accordance with applicable regulations and permits. Current estimated reclamation obligations under the Surface Mining and Reclamation Act, approximate \$23,300. Current reclamation obligations are secured by a \$30,000 Certificate of Deposit.

## Transactions with Related Parties

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 period ended June 30, 2014, the Company accrued interest of \$1,015,300 to RMB Australia Holdings in respect to the Loan Facility as outlined in Note 9. The Company paid no interest for the period ended June 30, 2014 and \$753,800 for the same period of 2013 on a bridge loan as outlined in Note 9.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Short-term employee benefits	\$ 168,200	\$ 389,100	\$ 264,500	\$ 585,400
Share based compensation	-	-	-	-
	<u>\$ 168,200</u>	<u>\$ 389,100</u>	<u>\$ 264,500</u>	<u>\$ 585,400</u>

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.

### Significant Accounting Judgments and Estimates

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. The 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 statement 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.
- 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 statement 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 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 Dollar.

## Off-Balance Sheet Arrangements

The Company had no off balance sheet arrangements As at June 30, 2014 and 2013.

## Financial Instruments

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. The Company is exposed to interest rate risk related to its senior secured term loan facility (see Note 9). The term loan incurs interest based on the 30-day LIBOR rate plus 5.0% during 2014. The Company is not exposed to significant currency, or credit risk arising from its financial instruments. All the Company's funds are held in accounts at major banks in Canada and the United States. As discussed previously, the Company has designated the RMBAH Facility as a financial liability at fair value through profit or loss. The Company recognizes 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. Therefore the Company is exposed to commodity price risk related to the mark-to-market gains or losses on the note payable. The Company has accepted this risk and has not tried to mitigate the risk.

The Company's financial instruments carrying amounts and fair values As at June 30, 2014 and 2013 are as follows:

	As at June 30, 2014			As at December 31, 2013		
	Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion	Total
RMBAH "SSTLF"	\$ 2,544,300	\$ 36,599,300	\$ 39,143,600	\$ 2,221,100	\$ 34,797,400	\$ 37,018,500
	\$ 2,544,300	\$ 36,599,300	\$ 39,143,600	\$ 2,221,100	\$ 34,797,400	\$ 37,018,500

## Outstanding share data

The authorized share capital of the Company consists of an unlimited number of common shares with no par value of which 123,877,007 and 121,655,366 were issued and outstanding as at June 30, 2014 and December 31, 2013, respectively. As at June 30, 2014 and December 31, 2013, the Company's common share capital was \$27,655,000 and \$27,262,300, respectively. As at August XX, 2014 the Company had 123,877,007 shares issued and outstanding. (Refer to the Related Party section of this MD&A below). Of the shares outstanding as at June 30, 2014 and December 31, 2013, 718,352 were allotted to the Company's former shareholders who may tender their shares in the future (Refer to Note 1 of the unaudited condensed interim consolidated financial statements).

On January 15, 2013, the Company completed a second tranche of the non-brokered private placement of 473,301 common share units at a price of \$0.30 for net proceeds of \$135,500.

The Company has authorized an unlimited number of preference shares with no par value. On June 30, 2014, June 30, 2013 and August 26, 2014 the Company had 254,414 Series 1 Convertible Redeemable Preference shares outstanding having a value of \$211,200. These 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.

### *Share Purchase Warrants:*

As at June 30, 2014 and December 31, 2013, the Company had no share purchase warrants issued and outstanding.

As at August 26, 2014, the Company had no share purchase warrants issued and outstanding.

### *Stock Options:*

During the periods ended June 30, 2014 and 2013, the Company expensed \$(1,500) and \$20,600, respectively, of share-based payments related to its Employee Share Option Plan.

As at June 30, 2014 and 2013, the Company had 3,359,000 and 5,508,000 stock options outstanding at an exercise price ranging from C\$0.11 to C\$0.20 and C\$0.11 to C\$0.39 and with expiry dates ranging from September 7, 2014 to November 11, 2016 and June 9, 2014 to November 12, 2017 respectively. If all the remaining June 30, 2014 outstanding options were to be exercised, the Company's available cash would increase by C\$594,445.

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at June 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\$
\$0.11	500,000	September 7, 2014	0.68	\$0.11	500,000	\$0.11
\$0.18	24,000	June 1, 2016	2.42	\$0.18	24,000	\$0.18
\$0.18	1,275,000	July 19, 2016	2.55	\$0.18	1,275,000	\$0.18
\$0.20	1,500,000	November 1, 2016	2.84	\$0.20	1,500,000	\$0.20
\$0.20	60,000	November 11, 2016	2.87	\$0.20	60,000	\$0.20
	3,359,000				3,359,000	

As at August XX, 2014, 3,359,000 stock options were outstanding under the Company's stock option plan for employees, directors, officers and consultants of the Company.

### Subsequent Events

On July 2, 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, 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.

#### 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.

On August 15, 2014 the deadline for the completion of the transaction was extended from August 15, 2014 to September 30, 2014.

#### 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:

- (i) US\$15 million principal amount;
  - (ii) interest at 12% per annum, capitalising until July 31, 2015 and paid monthly commencing on August 31, 2015;
  - (iii) repayment in up to 48 consecutive monthly installments of equal amounts, subject to certain conditions and adjustments, commencing on August 31, 2015; and,
  - (iv) 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.
- (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.

## **Company History and Mineral Properties**

The Company was incorporated in the Province of British Columbia on June 7, 1990. Effective December 29, 2004, the Company completed a reverse take-over ("RTO") by acquiring Sutter Gold Mining Company ("SGMC") of Riverton, Wyoming.

Approximately 98.4% of SGMC's shareholders tendered their shares for 43,871,015 common shares of the Company as at June 30, 2013 and December 31, 2012. The Company has allotted another 718,352 common shares for the other 1.6% of SGMC's shareholders to tender their shares in the future.

On June 12, 2008, RMB Resources Ltd. ("RMB"), a trustee for the Telluride Investment Trust, entered into a private agreement to purchase an aggregate of 39,062,072 (49.9%) common shares of the Company from U.S. Energy Corp. ("USE") for an aggregate purchase price of approximately C\$5,400,000, in accordance with the terms of a share purchase agreement and subject to certain closing conditions. On August 22, 2008, RMB completed the acquisition. As at June 30, 2014 and December 31, 2013, RMB owned 58,216,820 of the 123,877,007 and 121,182,065 outstanding common shares of the Company, respectively

The Company's principal business activity is the development and consolidation of mineral properties in California and, through a joint venture agreement, exploring mineral properties in Mexico.

### *Sutter Gold Mine and Lincoln Mine Project, California*

Lincoln Mine Project consists of contiguous patented owned and leased properties. Modern exploration of these properties began in the early 1980's with soil geochemical sampling, reverse circulation drilling and diamond core drilling. Significant effort and funding from predecessor entities acquired modern environmental and construction permitting and included initial underground development of a 15-foot wide, 12-foot high decline into the Lincoln and Comet vein zones. Additional permitting, underground development and sampling occurred well into the 1990's. The Company was created specifically as an entity for the continued advancement of the project. A project-wide modern gold resource was defined most recently in 2008 by independent geologist Mark Payne. A subsequent technical report (Preliminary Economic Assessment) focused on a portion of the project-wide resource and that described an initial

phase of mining activity at the Project was completed in 2011. The Preliminary Economic Assessment ("PEA"), completed by the independent engineering firm, Mine Development Associates ("MDA") of Reno, NV, USA, indicates positive economic potential for the Lincoln-Comet portion of Sutter's Lincoln Mine Project ("Project") resources. MDA considered an updated indicated and inferred resource of 210,300 tons grading 0.573 ounces per ton ("opt") or 19.6 grams/tonne ("g/t") at a 0.22opt (7.5 g/t) cutoff grade containing 120,000 ounces of gold.

Sutter staff and its consultants completed a comprehensive mine design for the Lincoln-Comet deposit utilizing Gemcom Surpac software and the block model resource created by MDA. The narrow-vein nature of the resource dictates the higher cost, but historically proven mining method of cut and fill stoping utilizing jackleg and stoper drills, electric and/or pneumatic slushers supplemented by modern rubber tire load-haul-dump machines and underground haul trucks. Mine levels are designed at 100-foot vertical spacing. Primary access exists through the modern 15-foot wide, 12-foot high Stringbean Alley decline. Secondary access is designed as an 8-foot wide x 8-foot high decline to the 1200 foot level (1200 feet above mean sea level) and an 8-foot wide x 8-foot high decline to the 1300 level. Stope panels are nominally 100 feet long x 100 feet high. All in-vein development is designed at a 3 foot minimum width. Material blasted and slushed in the stopes can be delivered, via muck passes, to levels where the rubber tire equipment can transfer it to chutes accessed by the Stringbean Alley decline. Underground haul trucks deliver the material to a new mill facility located at the surface. Mining and haulage costs are estimated at \$207 per ton of processed material. Mining dilution was estimated at 20% of zero grade waste with an additional dilution of 9.3% of material grading 0.20 opt. Ore loss was estimated at 10%. Utilizing a base gold price of \$1,100 per ounce and a five-year mine life, the PEA evaluated an initial high-grade scenario for the extraction of the resource at a 0.22 opt cutoff, mining an average of 22,300 ounces per year. A pre-tax cash-flow evaluation indicates an internal rate of return ("IRR") of 20.5% while the net present value at a 5% discount is \$8,027,100.

The completed National Instrument 43-101 compliant technical report, or Preliminary Economic Assessment by Mine Development Associates of Reno, Nevada, USA was filed on SEDAR and is available on the Company's website.

In the first quarter of 2013, the Company tested the crushing and grinding circuits in the mill. Additional mineral processing commenced in Q4 of 2013 using approximately 1,500 tons of stockpiled low-grade material from development and earlier bulk sample campaigns and an additional 1,500 tons generated during current phase of underground development work. Process and metallurgical consultants were engaged to assess various issues that were encountered during processing and several recommendations have been implemented with respect to changes in the process flow sheet, new equipment and improved operating procedures. Mineral processing continued into first quarter of 2014. However, weakness in the design and installation of the plant thickener and its failure precluded processing of all materials from the mine development work. The inability to dewater whole tailings on a sustained basis necessitated suspension of milling operations, and hence, commissioning of the mill. On March 4, 2014, the Company decided to temporarily suspend operations at the Lincoln Mine Project in order to conserve resources while it evaluates more fully, using third-party consultants to address the remaining mineral processing issues (see news release "Sutter Gold Mining Provides Project Update and Announces it Will Temporarily Suspend Operations at the Lincoln Mine Project", dated March 4, 2014).

### California Properties

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 June 30, 2014 and December 31, 2013 as there was no present obligation.

### Lincoln and Comet Properties

The Lincoln Mine Project has been the subject of considerable modern exploration activity, most of it centering on the Lincoln and Comet zones which are adjacent along strike. A total of 101,385 feet of drilling has been completed in 230 diamond drill holes, and modern underground development consists of a 2,850-foot declined ramp with 1,575 feet of horizontal crosscuts, 1,275 feet of horizontal ore development and 250 feet of vertical raise development.

The lease terms are 30 years, broken down into ten year segments carrying a 4% production royalty or minimum annual payments as follows for the Lincoln and Comet property. An additional 0.5% net smelter return royalty is held by a consultant to a lessee prior to the acquisition of the properties and covers the same 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 Mines

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land immediately adjacent to the Company's 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. Lease payments are made at the Company's option and therefore no accrual has been 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 Lincoln Mine Project and requires payments of \$5,000 per year for the first 10 years of the lease. A royalty of 5% of the net profits on production exists on these properties. 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

### 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. 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, several historic mining claims adjoining and contiguous with the 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. The Company opted to not renew the purchase option agreement on a going forward basis in the 2<sup>nd</sup> quarter of 2013.

#### Ecuador Property - NSR Interest, Portovelo, Ecuador

The Company had a 100% interest in three concessions located in the Portovelo region of southern Ecuador, subject to a 2% net smelter return royalty ("NSR") which was capped at a maximum of \$1.0 million on each of two of the concessions. In March 2006, the title of the property was transferred to Dynasty Metals & Mining Inc. ("Dynasty") for 30,000 of Dynasty's common shares which were received by the Company at a deemed value of \$20,100 and were sold in fiscal 2006. The Company retains a 2% NSR royalty on the properties, 50% of which may be purchased from the Company for C\$500,000.

#### Mexican Property Baja California, Mexico

On October 26, 2006, the Company entered into an Exclusive Option Agreement with The Alamo Group 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 in payments 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.

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 on signing the Definitive Agreement on February 7, 2007.

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 with 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 (C\$500,000, C\$180,000 reimbursed to report date) due to the vendor over four years. Premier has completed conditions to requisite conditions to earn the initial 50% interest in the project. Premier can earn an additional 15% interest in the property (to a 65% interest) by paying a further \$500,000 to the Company and conducting an additional \$4.0 million in exploration on the property.

The Company has completed its obligations under the option agreement. The Alamo Group has provided written confirmation that the terms of the lease option have been met. The Company continues to work with Premier towards realizing value from this asset.

#### **Risks and Uncertainties**

Due to risks and uncertainties, including the risks and uncertainties identified below and elsewhere in this MD&A and the related unaudited condensed interim consolidated financial statements, actual events may differ materially from current expectations.

By its very nature, mineral exploration and development involves a high degree of risk, and considerable expenditures are required to substantiate the commercial viability of a mineral property and then to develop it to profitable production. The Company competes with larger and better financed companies for exploration personnel, contractors and equipment. Increased exploration activity has increased demand for capital, equipment and services. There can be no assurance that the Company can obtain the required capital, equipment and services in a timely or cost effective manner.

The success of the Company will depend on numerous factors, including general economic factors; the obtainment of certain approvals; the availability of development and construction capital; the spot price of gold; preparation and execution of an underground development and mining plan which produces the amounts and grades of ore targeted by the plan; construction of a mill which recovers the percentages of gold estimated by the Company; ongoing delineation of sufficient ore reserves in addition to current estimates to sustain mining operations; absence of delays due to unanticipated underground engineering or production problems; and other factors such as environmental, permitting and other site preparation delays. There is no assurance of favorable determinations of such factors. An unfavorable determination of any one of such factors could significantly delay operations and impair the chances of success for the Company.

All of the Company's short to medium term operating and exploration expenses must be derived from external financing sources. Actual funding requirements may vary from what is planned due to a number of factors including the progress of exploration and development on its current properties. Should changes in equity market conditions, including interest rates, prevent the Company from obtaining additional external financing on economic viable terms, the Company will need to review its mineral property holdings to prioritize project expenditures based on funding availability.

The Company is exposed to price risk with respect to commodity and equity prices. Adverse commodity prices could affect the viability of the mineral property projects or affect the completion of future equity transactions. Adverse movements in the stock market or in individual equity prices could affect equity offerings and the exercise of stock options.

The Company's operations in the United States, Mexico and financing activities in Canada make it subject to foreign currency fluctuations and such fluctuations may materially affect its financial position and results.

A majority of the Company's directors and officers serve as directors and officers of other natural resource companies or institutions. Situations may arise where the directors and/or officers of the Company may be in competition with the Company. Any conflicts of interest will be subject to and governed by the law applicable to directors' and officers' conflicts of interest. In the event that such a conflict of interest arises an independent committee of directors will review and approve such resolution before it goes to the Company's full board of directors. In accordance with applicable laws, the directors and officers of the Company are required to act honestly, in good faith and in the best interests on the Company. In determining whether or not the Company will participate in a particular program or transaction and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

### **Internal Controls Over Financial Reporting**

In connection with the National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained within the unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

## **Additional Information**

The Company's web site address is [www.suttergoldmining.com](http://www.suttergoldmining.com). A copy of this MD&A, the unaudited condensed interim consolidated financial statements for the period ended June 30, 2014, the audited consolidated financial statements for the year ended December 31, 2013 and related MD&A and other information and public filings are available on the Company's web site or on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange with the trading symbol "SGM" and also trades on the OTCQX, the top tier of the US Over-the-Counter ("OTC") market under the symbol SGMNF.

## **Disclaimer**

The information contained within this discussion, by its very nature, is not a thorough summary of all matters and developments concerning Sutter Gold Mining Inc. The information herein is not a substitute for a detailed investigation or an analysis of any issue related to the Company. The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR and on the Company's website. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein. Further, certain data included in this document may be historical in nature. Consequently, they have not been verified by the Company's technical staff, and therefore they should not be relied upon.