
SUTTER GOLD MINING INC.

Consolidated Financial Statements

December 31, 2013 and 2012

(Expressed in US Dollars unless otherwise noted)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sutter Gold Mining Inc.,

We have audited the accompanying consolidated financial statements of Sutter Gold Mining Inc. and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sutter Gold Mining Inc. and its subsidiary as at December 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of Sutter Gold Mining Inc. as at and for the year ended December 31, 2012 were audited by other auditors, who expressed an unmodified opinion on those statements in their report to the shareholders dated April 2, 2013.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company has limited working capital, losses since inception and is dependent upon its ability to secure new sources of financing. These conditions, along with other matters as set forth in Notes 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



CHARTERED ACCOUNTANTS
Vancouver, BC
April 28, 2014

Sutter Gold Mining Inc.
Consolidated Statements of Financial Position

(Expressed in US Dollars)

	<i>Notes</i>	As at December 31, 2013	As at December 31, 2012
Assets			
Current assets			
Cash		\$ 386,400	\$ 1,245,200
Accounts receivable		2,900	31,200
Prepaid expenses		73,700	295,800
		463,000	1,572,200
Non-current assets			
Restricted investments	7	80,200	77,000
Mine under development	5	24,411,300	16,559,700
		24,491,500	16,636,900
Total assets		\$ 24,954,500	\$ 18,208,900
Liabilities and Shareholders' Deficiency			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 477,100	\$ 1,764,500
Leases payable		67,000	67,000
Current portion of notes payable	9	2,221,100	16,011,000
		2,765,500	17,842,500
Non-current liabilities			
Reclamation liability	7	23,300	23,300
Other non-current liabilities		123,500	-
Long-term notes payable	9	34,797,400	31,184,700
		34,944,200	31,208,000
Shareholders' Deficiency			
Preference shares	10	211,200	211,200
Common shares	10	27,262,300	27,126,800
Equity reserve – stock options		6,607,000	6,596,400
Deficit		(46,835,700)	(64,776,000)
Total shareholders' deficiency		(12,755,200)	(30,841,600)
Total liabilities and shareholders' deficiency		\$ 24,954,500	\$ 18,208,900
Commitments	17		
Subsequent events	18		

See the accompanying notes to the consolidated financial statements.

These consolidated financial statements are authorized for issue by the Board of Directors on April 29, 2013. They are signed on the Company's behalf by:

"Richard A. Winters" Director

"Mark T Brown" Director

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

(Expressed in US Dollars)

	<i>Notes</i>	For the year ended	
		2013	2012
Operating expenses			
Wages and benefits		1,663,500	2,264,500
Exploration		13,200	818,000
Mine property holding costs		446,600	771,600
Professional and contract services		540,800	877,200
Office and administrative		496,700	843,800
Share-based payments	<i>11</i>	10,600	203,000
Depreciation		99,700	117,700
Rent and electricity		223,600	108,500
Feasibility study		-	13,200
Gain on sale of assets		(8,000)	-
Loss on write-off of assets		71,000	-
Loss on foreign exchange		7,200	5,600
		<u>3,564,900</u>	<u>6,023,100</u>
Loss from operations		(3,564,900)	(6,023,100)
Interest income		1,100	3,400
Finance costs	<i>9</i>	(1,149,900)	(507,800)
Other income		7,500	-
Mark to market adjustment to note payable	<i>9</i>	22,646,500	(11,901,400)
		<u>21,505,200</u>	<u>(12,405,800)</u>
Net income (loss) and total comprehensive income (loss) for the year		\$17,940,300	\$(18,428,900)
Net income (loss) per share:			
Basic and diluted income (loss) per share attributable to common shareholders	<i>12</i>	\$ 0.15	\$ (0.16)
Weighted average number of common shares outstanding – basic and diluted	<i>12</i>	120,916,192	117,334,389

See the accompanying notes to the consolidated financial statements.

Sutter Gold Mining Inc.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in US Dollars)

	Notes	Preference Shares		Common shares		Equity Reserve – Stock Options	Deficit	Total Shareholders' Deficiency
		Number of shares	Amount	Number of shares	Amount			
Balance at January 1, 2012	10	254,414	\$ 211,200	117,517,098	\$26,017,900	\$6,436,800	\$(46,347,100)	\$(13,681,200)
Options exercised	11	-	-	275,000	48,500	-	-	48,500
Warrants exercised		-	-	-	43,400	(43,400)	-	-
Fair value of options exercised	10	-	-	3,389,934	1,017,000	-	-	1,017,000
Share-based payments	11	-	-	-	-	203,000	-	203,000
Net loss and total comprehensive loss		-	-	-	-	-	(18,428,900)	(18,428,900)
Balance at December 31, 2012		254,414	\$ 211,200	121,182,032	\$27,126,800	\$6,596,400	\$(64,776,000)	\$(30,841,600)
Balance at January 1, 2013	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	-	-	473,334	142,000	-	-	142,000
Cost of share issuance private placement		-	-	-	(6,500)	-	-	(6,500)
Share-based payments	11	-	-	-	-	10,600	-	10,600
Net income and total comprehensive income		-	-	-	-	-	17,940,300	17,940,300
Balance at December 31, 2013	10	254,414	\$ 211,200	121,655,366	\$27,262,300	\$6,607,000	\$(46,835,700)	\$(12,755,200)

See the accompanying notes to the consolidated financial statements.

Sutter Gold Mining Inc.
Consolidated Statements of Cash Flows

(Expressed in US Dollars)

	For the year ended ended December 31,	
	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ 17,940,300	\$ (18,428,900)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Depreciation	99,700	117,700
Amortization of loan fees	528,600	471,400
Loss on write-off of property, plant and equipment	71,000	-
Share-based payments	10,600	203,000
Gain on sale of assets	(8,000)	-
Mark to market adjustment to note payable	(22,646,500)	11,901,400
Interest expense	-	36,400
	(4,004,300)	(5,699,000)
Accounts receivable	28,300	(25,100)
Prepaid expenses	93,500	14,000
Accounts payable and accrued liabilities	(1,163,600)	24,300
Cash generated from operations	(5,046,100)	(5,685,800)
Interest paid	-	(20,500)
Net cash used in operating activities	(5,046,100)	(5,706,300)
Cash flows from investing activities		
Proceeds from sale of assets	8,000	-
Change in restricted investments	(3,200)	-
Payments for mine under development	(8,022,300)	(13,145,600)
Net cash used in investing activities	(8,017,500)	(13,145,600)
Cash flows from financing activities		
Proceeds from note payable	12,469,300	15,633,100
Loan issuance costs	(400,000)	(600,000)
Proceeds from the issuance of shares	142,000	1,017,000
Issuance costs	(6,500)	48,500
Net cash provided by financing activities	12,204,800	16,098,600
Net decrease in cash	(858,800)	(2,753,300)
Cash - Beginning of the year	1,245,200	3,998,500
Cash - End of the year	\$ 386,400	\$ 1,245,200

See the accompanying notes to the consolidated financial statements.

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(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 of mineral properties. The head office, principle, and registered address of the Company is 165 S. Union Blvd., Suite 565, Lakewood, CO 80228. 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 December 31, 2013 and 2012, 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 December 31, 2013 and 2012, RMB owned 58,216,820 of the 121,182,065 and 117,517,098 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.

The Company has generated significant losses since its inception which has resulted in an accumulated deficit of \$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 may 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 December 31, 2013, the Company has a working capital deficiency of \$2,302,500 compared to a working capital deficiency as at December 31, 2012 of \$16,270,300. These consolidated 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.

Also see Notes 14(b) and 18.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") effective for the year ended December 31, 2013, using the significant accounting policies outlined below.

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(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

Amendments to IAS 32, *Financial Instruments: Presentation*, issued in December 2011 which clarifies existing application issues relating to the offset of financial assets and financial liabilities requirements applies to annual periods beginning on or after January 1, 2014.

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.

(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.

(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.

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(Expressed in US Dollars except for per share information)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Deferred income taxes (continued)

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 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 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 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

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(Expressed in US Dollars except for per share information)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Exploration and evaluation (continued)

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.

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 December 31, 2013 and 2012, 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.

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 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;

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(Expressed in US Dollars except for per share information)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Foreign currency translation (continued)

- 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 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
- 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 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 statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(Expressed in US Dollars except for per share information)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 December 31, 2013 and 2012, 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.

(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.

Sutter Gold Mining Inc.

Notes to the consolidated financial statements

December 31, 2013 and 2012

(Expressed in US Dollars except for per share information)

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 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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

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4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

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 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 Dollar.

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, 2012 and 2013.

	Land Improvements	Buildings	Equipment and Vehicles	Development Costs	Total
Cost					
Balance at January 1, 2012	737,500	479,100	1,587,600	759,800	3,564,000
Additions	3,969,900	4,273,200	3,533,500	2,201,800	13,978,400
Balance at December 31, 2012	\$ 4,707,400	\$ 4,752,300	\$ 5,121,100	\$ 2,961,600	\$ 17,542,400
Balance at 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
	Land Improvements	Buildings	Equipment and Vehicles	Development Costs	Total
Depreciation					
Balance at January 1, 2012	11,600	224,400	629,000	-	865,000
Additions	7,000	6,900	103,800	-	117,700
Balance at December 31, 2012	\$ 18,600	\$ 231,300	\$ 732,800	\$ -	\$ 982,700
Balance at January 1, 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

Sutter Gold Mining Inc.

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*(Expressed in US Dollars except for per share information)***5. MINE UNDER DEVELOPMENT (CONTINUED)**

	Land Improvements	Buildings	Equipment and Vehicles	Development Costs	Total
Carrying amounts					
At December 31, 2012	\$ 4,688,800	\$ 4,521,000	\$ 4,388,300	\$ 2,961,600	\$ 16,559,700
At December 31, 2013	\$ 7,866,300	\$ 4,748,600	\$ 5,562,300	\$ 6,234,100	\$ 24,411,300

During the year ended December 31, 2013, the Company incurred \$1,680,500 of interest expense related to the short term bridge loan (See Note 9). Of this amount, the Company capitalized interest expense of \$1,216,200 related to the construction of the Lincoln Mine Project.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTSSutter Gold Project, CaliforniaLincoln 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, no accrual is 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 years segment carrying a 4% production royalty or a minimum annual payment. As of December 31, 2013, 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

Sutter Gold Mining Inc.

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6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

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, no accrual is 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. 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, no accrual is 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, no accrual is made. The Company has decided to discontinue this lease; 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);

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6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

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 comply with these laws and regulations. The current estimated reclamation liability of \$23,300 is secured by a \$30,000 reclamation bond as at December 31, 2013 and \$27,000 as at December 31, 2012.

At December 31, 2013 and 2012, the Company also has two Certificates of Deposit held with US Bank totaling \$50,200 as collateral for the Company's credit cards.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2013	December 31, 2012
Accounts payable	\$ 110,700	\$ 62,800
Salaries and other compensation	182,900	187,600
Deferred rent	-	6,300
Accrued property, plant and equipment	-	1,306,600
Accrued expenses	183,800	201,200
	<u>\$ 477,400</u>	<u>\$ 1,764,500</u>

9. LOAN FACILITY

The current and long-term portion of the note payable as at December 31, 2013 and December 31, 2012 are as follows:

	As at December 31, 2013			As at December 31, 2012		
	Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion	Total
RMBAH "PPGF"	\$ -	\$ -	\$ -	\$ 8,511,000	\$31,184,700	\$39,675,700
RMBAH "BLF"	-	-	-	7,500,000	-	7,500,000
RMBAH "SSTLF"	2,221,100	34,797,400	37,018,500	-	-	-
	<u>\$ 2,221,100</u>	<u>\$ 34,797,400</u>	<u>\$ 37,018,500</u>	<u>\$16,011,000</u>	<u>\$31,184,700</u>	<u>\$47,195,700</u>

RMBAH Loan ("Loan Facility")

On August 12, 2009, the Company entered into a short-term loan facility agreement ("Loan Facility") with RMB Australia Holdings Limited ("RMBAH"). RMBAH is related to RMB as both companies are members of the FirstRand Group. The Loan Facility was denominated in US dollars and initially had a limit of \$4,250,000.

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9. LOAN FACILITY (CONTINUED)

On August 31, 2010 the Loan Facility was extended to September 30, 2011 and the amount available increased by \$3,650,000 to \$7,900,000. Prior to the due date, the loan was paid off on July 15, 2011 with the origination of the new PPGF discussed below.

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 recorded cumulative mark to market gains and (losses) on this debt of \$22,646,500 and \$(11,901,400) respectively as it had designated the PPGF as a financial liability at fair value through profit or loss for the fiscal years ended December 31, 2013 and December 31, 2012. The mark to market gains and (losses) represent the difference between the spot price of repayable gold ounces as at December 23, 2013 and December 31, 2012 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 years ended December 31, 2013 and 2012, the Company recognized loan amortization expenses of \$528,600 and \$471,400, 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 31, 2013 and December 23, 2012, \$19,969,300 and \$7,500,000 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 10% per annum. Interest was payable monthly in cash in arrears.

During the years ended December 31, 2013 and 2012 the Company paid \$1,680,500 and \$121,500, respectively, in interest expense related to the BLF of which the Company capitalized \$1,216,200 and \$91,100 related to the construction of the Lincoln Mine Project and expensed the remaining \$464,400 and \$30,400 as finance costs.

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

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9. LOAN FACILITY (CONTINUED)

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 marked-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%.

No interest was owed on the SSTF as at December 31, 2013.

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

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10. SHARE CAPITAL AND OTHER EQUITY

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

As at December 31, 2013 and 2012, the Company had an unlimited number of authorized common shares without par value, and outstanding were 121,655,366 and 121,182,032 shares as at December 31, 2013 and 2012, 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 December 31, 2013 and 2012, 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 December 31, 2013 and 2012.

(b) Warrants

During the year ended December 31, 2012, 12,275,606 warrants were exercised at an exercise price of C\$0.15 on or before the expiration date of August 22, 2011 and 423,934 warrants expired. As a result, the Company received cash of \$1,852,500 and recognized a gain of \$1,328,000 on the change in the warrant derivative. As at December 31, 2013 and 2012 no warrants were outstanding.

11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

During the years ended December 31, 2013 and 2012, the Company expensed \$10,600 and \$203,000, respectively, of share-based payments related to its Employee Share Option Plan ("Plan").

During the year ended December 31, 2013 no stock options were exercised. During the year ended December 31, 2012, 275,000 stock options were exercised at exercise prices ranging from C\$0.13 to C\$0.19 resulting in cash proceeds of \$48,500. The weighted average market price of stock options exercised during the year ended December 31, 2012 was C\$0.24.

A summary of the status of the Plan as at December 31, 2013 and 2012, and changes during the periods ended on those dates is presented below.

	Options	Weighted Average Exercise Price C\$
Balance outstanding December 31, 2011	5,709,000	0.16
Options exercised	(275,000)	0.18
Options forfeited	(125,000)	0.29
Options granted	369,000	0.31
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

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*(Expressed in US Dollars except for per share information)***11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN (CONTINUED)**

As at December 31, 2013, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

As at December 31, 2013					
Grant Date	Options Issued	Exercise Price C\$	Vesting Terms	Expiry date	
June 9, 2009	800,000	0.11	A	June 9, 2014	
September 7, 2009	500,000	0.11	B	September 7, 2014	
June 1, 2011	24,000	0.18	C	June 1, 2016	
July 19, 2011	1,275,000	0.18	D	July 19, 2016	
November 1, 2011	1,500,000	0.20	E	November 1, 2016	
November 11, 2011	60,000	0.20	C	November 11, 2016	
August 20, 2012	30,000	0.37	C	August 20, 2017	
	4,189,000				

- A. Options vest 100% 1 year from grant date.
- B. Options vest 50% 1 year from grant date and 100% 2 years from grant date.
- C. Options vest 1/3 at grant date, another 1/3 1 year from grant date and the remaining vest 2 years from grant date.
- D. Options vest 100% at grant date.
- E. 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 9, 2009	C\$0.056	C\$0.07	C\$0.11	124%	5	-	1.80%
September 7, 2009	C\$0.093	C\$0.11	C\$0.11	124%	5	-	1.80%
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%
August 20, 2012	C\$0.306	C\$0.37	C\$0.37	135%	5	-	1.00%

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*(Expressed in US Dollars except for per share information)***11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN (CONTINUED)**

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at December 31, 2013:

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	800,000	June 9, 2014	0.44	\$0.11	800,000	\$0.11
\$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
\$0.37	30,000	August 20, 2017	3.64	\$0.37	30,000	\$0.37
	4,189,000				4,189,000	

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.

	December 31,	
	2013	2012
Net income (loss) attributable to common shareholders	\$ 17,940,300	\$ (18,428,900)
Weighted average number of common shares in issue	120,916,192	117,334,389
Basic income (loss) per share	\$ 0.15	\$ (0.16)

(b) Diluted

Diluted income (loss) per share has been presented for December 31, 2013 and has not been presented for 2012 as this calculation is anti-dilutive. As at December 31, 2012, 5,214,000 options, would have been dilutive had the calculation been required.

	2013
Net income attributable to common shareholders	\$ 17,940,300
Weighted average number of common shares in issue and dilutive options outstanding	122,216,192
Diluted income per share	\$ 0.15

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*(Expressed in US Dollars except for per share information)***13. INCOME TAXES**

The income tax expense differs from the amount that would result from applying the federal and provincial income tax rate to the net loss before income taxes. These differences result from the following items:

	Year ended December 31,	
	2013	2012
(Income)/loss before income taxes	\$ (17,940,300)	\$ 18,428,900
Effective Statutory Rate	23.41%	38.86%
Expected tax (recovery)/payable	4,199,900	(7,162,100)
Increase (decrease) due to:		
Permanent differences	(15,400)	14,700
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(6,700,700)	7,039,000
Effect on deferred tax balances due to change in income tax	2,966,300	(146,700)
Adjustments recognized in the current year in relation to the current tax in prior years and other	(450,100)	255,100
Tax expense (recovery)/payable	<u>\$ -</u>	<u>\$ -</u>

The tax rate used for the 2013 and 2012 reconciliations above is based on the aggregate of separate reconciliations for the Canadian and United States reconciliations.

There are no deferred tax assets/(liabilities) presented in the consolidated statement of financial position.

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets/(liabilities) have been recognized are attributable to the following:

	December 31, 2013	December 31, 2012
Non-capital losses/Non-operating losses	\$ 37,720,000	\$ 24,376,500
Financing costs	789,000	1,991,600
Property, plant and equipment and development costs	(2,645,000)	2,037,700
Mark to market adjustments	-	19,695,700
	<u>\$ 35,864,000</u>	<u>\$ 48,101,500</u>

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*(Expressed in US Dollars except for per share information)***13. INCOME TAXES (CONTINUED)**

Unrecognized non-capital losses and non-operating losses are available to reduce taxable income in Canada and the United States and expire in stages through 2033 as follows:

	Canada	United States	Total
2015	\$ 166,000	\$ -	\$ 166,000
2016	-	-	-
2017	-	1,593,000	1,593,000
2018	-	1,835,000	1,835,000
2019	-	1,496,000	1,496,000
2020	-	602,000	602,000
2021	-	265,000	265,000
2022	-	-	-
2023	-	526,000	526,000
2024	-	559,000	559,000
2025	-	883,000	883,000
2026	249,000	1,571,000	1,812,000
2027	627,000	1,002,000	1,629,000
2028	420,000	1,495,000	1,915,000
2029	1,133,000	2,879,000	4,012,000
2030	873,000	2,666,000	3,539,000
2031	138,000	2,557,000	2,695,000
2032	833,000	6,246,000	7,079,000
2033	1,870,000	5,236,000	7,106,000
	<u>\$ 6,309,000</u>	<u>\$ 31,411,000</u>	<u>\$ 37,720,000</u>

14. 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.

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*(Expressed in US Dollars except for per share information)***14. FINANCIAL RISK MANAGEMENT (CONTINUED)****(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 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 December 31, 2013 and 2012:

December 31, 2013					
	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

(Refer also to Note 2. Basis of Presentation - Going Concern)

December 31, 2012					
	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 1,764,500	\$ 1,764,500	\$ 1,764,500	\$ -	\$ -
Leases payable	\$ 67,000	\$ 67,000	\$ 67,000	\$ -	\$ -
Note payable	\$ 47,195,700	\$ 47,195,700	\$ 16,011,000	\$ 31,184,700	\$ -
Reclamation liability	\$ 23,300	\$ 23,300	\$ -	\$ -	\$ 23,300
Mineral leases	\$ -	\$ 1,007,200	\$ 161,600	\$ 538,800	\$ 306,800

(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 short term bridge loan (see Note 9). The bridge loan incurs interest based on the 30-day LIBOR rate plus 11.5% during 2013. A 10% increase in the LIBOR rate would have increased the Company's interest expense by the amount of \$100,600.

(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 2013 and 2012. 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 December 31, 2013 and 2012 as any fluctuation is not material to the Company's financial statements.

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14. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 December 31, 2013 and 2012 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.

	As at December 31, 2012			
	Level I	Level II	Level III	Total
RMBAH Facility	\$ -	\$ 39,695,700	\$ -	\$ 39,695,700
RMBAH Bridge Loan	7,500,000	-	-	7,500,000
Total	\$ 7,500,000	\$ 39,695,700	\$ -	\$ 47,195,700

The Company had no assets or liabilities valued at fair value as at December 31, 2013.

15. 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.

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15. CAPITAL RISK MANAGEMENT (CONTINUED)

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.

16. 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 years ended December 31, 2013 and 2012, the Company paid no interest to RMB Australia Holdings in respect to the Loan Facility as outlined in Note 9. The Company paid interest of \$1,680,500 for its 2013 and \$121,500 for its 2012 bridge loan as outlined in Note 9. In addition, the Company paid loan transaction financing fees in the amount of \$600,000 in 2012 and \$400,000 in 2013 in respect to setting up bridge loan and increasing the bridge facilities available funds.

During the year ended December 31, 2012, members of Board of Directors participated in the Company's private placement and purchased 550,000 common shares at \$0.30 per share for gross proceeds to the Company of \$165,000.

The remuneration of key management personnel of the Company for the year ended December 31, 2013 and 2012 was as follows:

	2013	2012
Short-term employee benefits	\$ 777,900	\$ 1,397,600
Share based compensation	-	124,200
	<u>\$ 777,900</u>	<u>\$ 1,521,800</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.

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.

17. COMMITMENTS

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

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17. COMMITMENTS (CONTINUED)

amounts have been accrued as a liability as at December 31, 2013 and 2012 as there was no present obligation as nothing has been sold.

18. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2013:

On January 15, 2013 the Company issued 475,000 common shares to the former Chief Executive Officer in regards to the first installment of severance agreement (see note 16).

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

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 on April 15, 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, 1,746,641 common shares were issued (equating a deemed price of approximately \$0.20 per share).