
SUTTER GOLD MINING INC.

Condensed Interim Consolidated Financial Statements

June 30, 2013 and 2012

(Expressed in US Dollars unless otherwise noted)
(Unaudited)

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

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

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

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

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

(Expressed in US Dollars)

(Unaudited)

| | | As at June 30, 2013 | As at December 31, 2012 |
|---|----|---------------------------|-------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 376,400 | \$ 1,245,200 |
| Accounts receivable | | 9,700 | 31,200 |
| Prepaid expenses | | 291,000 | 295,800 |
| | | 677,100 | 1,572,200 |
| Non-current assets | | | |
| Restricted investments | 7 | 80,000 | 77,000 |
| Mine under development | 5 | 20,850,500 | 16,559,700 |
| | | 20,930,500 | 16,636,900 |
| Total assets | | \$ 21,607,600 | \$ 18,208,900 |
| Liabilities and Shareholders' Deficiency | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8 | \$ 480,600 | \$ 1,764,500 |
| Leases payable | | 67,000 | 67,000 |
| Current portion of note payable | 9 | 17,962,000 | 16,011,000 |
| | | 18,509,600 | 17,842,500 |
| Non-current liabilities | | | |
| Reclamation liability | 7 | 23,300 | 23,300 |
| Long-term note payable | 9 | 10,589,300 | 31,184,700 |
| | | 29,122,200 | 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 | | 6,617,000 | 6,596,400 |
| Deficit | | (41,605,100) | (64,776,000) |
| Total shareholders' deficiency | | (7,514,600) | (30,841,600) |
| Total liabilities and shareholders' deficiency | | \$ 21,607,600 | \$ 18,208,900 |
| Commitments | 16 | | |

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

These condensed interim consolidated financial statements are authorized for issue by the Board of Directors on August 28, 2013. They are signed on the Company's behalf by:

“Richard A. Winters” Director

“Mark T Brown” Director

Sutter Gold Mining Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in US Dollars)
(Unaudited)

| | <i>Notes</i> | For the three months ended June 30, | | For the six months ended June 30, | |
|---|--------------|--|----------------------|--------------------------------------|----------------------|
| | | 2013 | 2012 | 2013 | 2012 |
| Operating expenses | | | | | |
| Wages and benefits | | \$ 595,000 | \$ 533,700 | \$ 1,038,200 | \$ 974,900 |
| Professional & contract services | | 139,900 | 159,400 | 290,200 | 278,100 |
| Mine property holding costs | | 124,000 | 306,600 | 270,800 | 480,100 |
| Office & administrative | | 111,400 | 86,400 | 210,300 | 184,500 |
| Travel & entertainment | | 51,900 | 53,900 | 107,100 | 110,200 |
| Rent & electricity | | 30,100 | 30,500 | 56,900 | 56,800 |
| Depreciation | | 17,000 | 24,500 | 40,300 | 50,800 |
| Share-based payments | 11 | 9,000 | 51,800 | 20,600 | 107,800 |
| Exploration | | - | 265,000 | - | 523,000 |
| Feasibility study | | - | - | - | 13,200 |
| Loss on disposal of assets | | 44,300 | - | 44,300 | - |
| (Gain) loss on foreign exchange | | (300) | 2,300 | 2,400 | 2,600 |
| | | <u>1,122,300</u> | <u>1,514,100</u> | <u>2,081,100</u> | <u>2,782,000</u> |
| Loss from operations | | <u>(1,122,300)</u> | <u>(1,514,100)</u> | <u>(2,081,100)</u> | <u>(2,782,000)</u> |
| Interest income | | 100 | 1,200 | 800 | 2,200 |
| Finance costs | | (480,000) | - | (681,400) | - |
| Mark to market adjustment note payable | 9 | 22,320,200 | (1,957,500) | 25,932,600 | (7,044,100) |
| | | <u>21,840,300</u> | <u>(1,956,300)</u> | <u>25,252,000</u> | <u>(7,041,900)</u> |
| Net income (loss) and comprehensive income (loss) for the period | | <u>\$ 20,718,000</u> | <u>\$(3,470,400)</u> | <u>\$ 23,170,900</u> | <u>\$(9,823,900)</u> |
| Net income (loss) per share: | | | | | |
| Basic and diluted income (loss) per share attributable to common shareholders | 12 | \$ 0.17 | \$ (0.03) | \$ 0.19 | \$ (0.09) |
| Basic and diluted weighted average number of common shares outstanding | | <u>119,364,143</u> | <u>115,219,943</u> | <u>119,364,143</u> | <u>115,219,943</u> |

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

Sutter Gold Mining Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in US Dollars)

(Unaudited)

| | Notes | Preferred Shares | | Common shares | | Equity Reserves – Stock Option | 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) |
| Share-based payments | 11 | - | - | - | - | 107,800 | - | 107,800 |
| Net loss and comprehensive loss | | - | - | - | - | - | (9,823,900) | (9,823,900) |
| Balance at June 30, 2012 | | 254,414 | \$ 211,200 | 117,517,098 | \$ 26,017,900 | \$ 6,544,600 | \$ (56,171,000) | \$ (23,397,300) |
| Balance at January 1, 2013 | 10 | 254,414 | \$ 211,200 | 121,182,065 | \$ 27,126,800 | \$ 6,596,400 | \$ (64,776,000) | \$ (30,841,600) |
| Share-based payments | 11 | - | - | - | - | 20,600 | - | 20,600 |
| Shares issued for private placement | 10 | - | - | 473,301 | 135,500 | - | - | 135,500 |
| Net loss and comprehensive loss | | - | - | - | - | - | 23,170,900 | 23,170,900 |
| Balance at June 30, 2013 | 10 | 254,414 | \$ 211,200 | 121,655,366 | \$27,262,300 | \$6,617,000 | \$(41,596,000) | \$(7,505,500) |

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

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

(Expressed in US Dollars)

(Unaudited)

| | Notes | For the six months ended June 30, | |
|---|-------|--------------------------------------|----------------|
| | | 2013 | 2012 |
| Cash flows from operating activities | | | |
| Net income (loss) for the period | | \$ 23,170,900 | \$ (9,823,900) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation | | 40,300 | 50,800 |
| Amortization of loan fees | | 486,200 | - |
| Share-based payment | 11 | 20,600 | 107,800 |
| Loss on disposal of property, plant and equipment | | 44,300 | - |
| Mark to market adjustment to note payable | 9 | (25,932,600) | 7,044,100 |
| Interest expense | | 195,200 | - |
| | | (1,975,100) | (2,621,200) |
| Accounts receivable | | 21,500 | (1,100) |
| Prepaid expenses | | (81,400) | 30,100 |
| Accounts payable and accrued liabilities | | (104,300) | 203,300 |
| Cash used in operations | | (2,139,300) | (2,388,900) |
| Interest paid | | (169,100) | - |
| Net cash used in operating activities | | (2,308,400) | (2,388,900) |
| Cash flows from investing activities | | | |
| Purchase of restricted investments | | (3,000) | - |
| Payments for mine under development | 5 | (5,581,100) | (3,613,400) |
| Net cash used in investing activities | | (5,584,100) | (3,613,400) |
| Cash flows from financing activities | | | |
| Proceeds from the issuance of shares | | 142,000 | - |
| Share issuance costs | 10 | (6,500) | - |
| Proceeds from debt | 9 | 7,288,200 | 8,133,100 |
| Loan issuance costs | | (400,000) | - |
| Net cash provided by financing activities | | 7,023,700 | 8,133,100 |
| Net (decrease) increase in cash | | (868,800) | 2,130,800 |
| Cash and cash equivalents - Beginning of the period | | 1,245,200 | 3,998,500 |
| Cash and cash equivalents - End of the period | | \$ 376,400 | \$ 6,129,300 |

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

Sutter Gold Mining Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

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 and OTC exchanges.

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 June 30, 2012 and December 31, 2011, 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 June 30, 2013 and December 31, 2012, RMB owned 58,216,820 of the 121,655,366 and 121,182,065 outstanding common shares of the Company, respectively.

2. BASIS OF PRESENTATION - GOING CONCERN

These unaudited condensed interim 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 \$41,605,100 and \$64,776,000 as at June 30, 2013 and December 31, 2012, respectively. 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 June 30, 2013 and December 31, 2012, the Company has working capital deficiencies of \$17,832,500 and \$16,270,300, respectively. These unaudited condensed interim 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as those applied by the Company in its audited consolidated annual financial statements as at and for the year ended December 31, 2012. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. They do not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Company as at and for the year ended December 31, 2012.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 28, 2013, the date the Board of Directors approved the financial statements.

Sutter Gold Mining Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation

These unaudited condensed interim 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 unaudited condensed interim consolidated financial statements.

(c) Principles of consolidation

These unaudited condensed interim 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) 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.

(e) Deferred income taxes

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

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

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

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Deferred income taxes (continued)

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 Group intends to settle its current tax assets and liabilities on a net basis.

(f) Property, plant and equipment

Land Improvements, Buildings and Equipment and vehicles are carried at cost net of accumulated depreciation. Depreciation of Land Improvements, Buildings, and Equipment and vehicles 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 |

(g) 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 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".

(h) Exploration and evaluation

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

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.

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Notes to the Condensed Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Exploration and evaluation (continued)

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 June 30, 2013 and December 31, 2012, there are no mineral costs capitalized.

(i) 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.

(j) Foreign currency translation

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

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

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

(k) Financial assets and liabilities

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

Sutter Gold Mining Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(k) Financial assets and liabilities (continued)

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 and restricted investments as loans and receivables, which are measured at amortized cost. Accounts receivable are classified 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 Company has designated the RMBAH Facility as a financial liability at fair value through the profit or loss (“FVTPL”). 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.

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 accounts 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 accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of accounts 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 unaudited interim consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

(l) Cash

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

(m) 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 these estimates are revised.

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(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(m) Asset retirement obligations (continued)

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 June 30, 2013 and December 31, 2012, the Company does not have any asset retirement obligations other than reclamation liabilities as accrued.

(n) 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. Common shares issued for non-monetary consideration are recorded at the fair market value of the goods or services received.

(o) Interest income

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

(p) 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.

The amount of borrowing costs capitalized for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capitalized expenditure for the qualifying assets during the period. Where any borrowing costs are incurred specifically in relation to a qualifying asset, they are allocated directly to the asset to which they relate and are excluded from the afore-mentioned calculation.

All other borrowing costs are recognized in profit or loss in the period in which they incurred.

(q) 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 earnings (loss) per share if their inclusion would be anti-dilutive.

(r) 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.

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Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(s) New standards effective for current year

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 Joint Arrangements to replace IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. The focus of the standard is to reflect the rights and obligations of the parties involved in the joint arrangement, regardless of whether the joint arrangement operates through a separate legal entity. Joint arrangements that are classified as joint ventures are accounted for using the equity method of accounting. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. The adoption of IFRS 11 has not had a material impact on these financial statements.

There are no other new IFRS or International Financial Reporting Interpretations Committee Standards that are effective for the first time for the current interim period that would be expected to have a material impact on the Company's condensed interim consolidated financial statements.

(t) Future Accounting Standards

The Company has not yet applied the following new and revised IFRS that have been issued but are not yet effective:

IFRS 9 Financial Instruments

Effective January 1, 2015 introduces new requirements for the classification and measurement of financial assets and financial liabilities. This is not expected to have a significant effect on the Company's accounting policies or financial statements.

Amendments to IAS 32. Financial Instruments: Presentation (effective January 1, 2014) clarifies existing application issues relating to offsetting requirements. This is not expected to have a significant effect on the Company's accounting policies or financial statements.

4. 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.

a) 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

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a) Sources of estimation uncertainty (continued)

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 related to 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.

b) 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.

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5. MINE UNDER DEVELOPMENT

| | Land Improvements | Buildings | Equipment and Vehicles | Development Costs | Total |
|------------------------------|----------------------|--------------|---------------------------|----------------------|---------------|
| Cost | | | | | |
| Balance at December 31, 2011 | \$ 737,500 | \$ 479,100 | \$ 1,587,600 | \$ 759,800 | \$ 3,564,000 |
| Additions | 677,200 | 1,087,800 | 1,044,100 | 933,100 | 3,742,200 |
| Balance at June 30, 2012 | \$ 1,414,700 | \$ 1,566,900 | \$ 2,631,700 | \$ 1,692,900 | \$ 7,306,200 |
| Balance at December 31, 2012 | \$ 4,707,400 | \$ 4,752,300 | \$ 5,121,100 | \$ 2,961,600 | \$ 17,542,400 |
| Disposals | (6,300) | (87,200) | 297,600 | - | (391,100) |
| Additions | 1,323,600 | 194,400 | 888,600 | 1,968,800 | 4,375,400 |
| Balance at June 30, 2013 | \$ 6,024,700 | \$ 4,859,500 | \$ 5,712,100 | \$ 4,930,400 | \$ 21,526,700 |
| Depreciation | | | | | |
| Balance at December 31, 2011 | \$ 11,600 | \$ 224,400 | \$ 629,000 | \$ - | \$ 865,000 |
| Additions | 3,500 | 3,500 | 43,800 | - | 50,800 |
| Balance at June 30, 2012 | \$ 13,400 | \$ 226,200 | \$ 651,700 | \$ - | \$ 891,300 |
| Balance at December 31, 2012 | \$ 18,600 | \$ 231,300 | \$ 732,800 | \$ - | \$ 982,700 |
| Disposals | (6,300) | (73,400) | (267,100) | - | (346,800) |
| Additions | 3,500 | 2,000 | 34,800 | - | 40,300 |
| Balance at June 30, 2013 | \$ 15,800 | \$ 159,900 | \$ 500,500 | \$ - | \$ 676,200 |
| Carrying amounts | | | | | |
| At December 31, 2011 | \$ 4,688,800 | \$ 4,521,000 | \$ 4,388,300 | \$ 2,961,600 | \$ 16,559,700 |
| At June 30, 2013 | \$ 6,008,900 | \$ 4,699,600 | \$ 5,211,600 | \$ 4,930,400 | \$ 20,850,500 |

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Sutter Gold Project, California

Lincoln and Comet Properties

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

The Comet and Lincoln leases were amended in 2003. Both leases have terms of 30 years, broken down into ten year segments carrying a 4% production royalty or minimum annual payments as described below for the Lincoln and Comet property. 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 Project. The payments have been made up to date.

| <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 |

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6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

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 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 at June 30 2013 and December 31, 2012, 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' payments have been made up to date.

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

Keystone Property

Effective August 1, 2003, the Company entered into a lease ("Third Amendment to Mining Lease and Option") with Keystone Mining Corporation. The lease covers certain properties at the Sutter Gold Project 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. The payments have been made up to date.

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. The payments have been made and are up to date.

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. The Company opted to not renew the lease on a going forward basis.

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.

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6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

Mexican property (continued)

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

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

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

On March 29, 2007, the Company signed a letter of intent and on August 7, 2007 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 June 30, 2013.

At June 30, 2013 and December 31, 2012, the Company also has two Certificates of Deposit held with US Bank totaling \$50,000 as collateral for the Company's credit cards.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| | June 30, 2013 | December, 31, 2012 |
|---------------------------------------|--------------------------|-------------------------------|
| Accounts payable | \$ 104,800 | \$ 62,800 |
| Salaries and other compensation | 198,000 | 187,600 |
| Deferred rent | 1,000 | 6,300 |
| Accrued property, plant and equipment | 100,900 | 1,306,600 |
| Accrued expenses | 75,900 | 201,200 |
| | <u>\$ 480,600</u> | <u>\$ 1,764,500</u> |

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9. 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 is denominated in US dollars and initially had a limit of \$4,250,000. The Loan Facility was for the purpose of funding agreed development activities at the Lincoln Project in California and corporate expenditures. 7.5% of the Loan Facility amount was paid to the Lender in cash upon execution of the Facility Agreement.

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. The loan was paid off prior to the due date of July 15, 2011 with the origination of the new RMBAH Facility discussed below.

In June 2011, the Company entered into an agreement with RMBAH to provide approximately 70% of the cost of the Lincoln Mine project located in Amador County, California. This project finance facility is a secured prepaid gold loan in the amount of \$20 million. Proceeds were 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 new RMBAH Facility was drawn down by the Company during the construction and development of the project. The Company commenced drawing down the facility in July, 2011 and inclusive of the repayment of existing Loan Facility, as at June 30, 2013 and December 31, 2012 \$20,000,000 had been drawn down. The Company will 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 delivery schedule. Under the new schedule, the Company's gold delivery increased from 53,027 ounces to 54,942 ounces with the first delivery in January, 2013 and the last delivery in October, 2017. The Company has not made its deliveries in 2013. As a result of not making these deliveries, the Company's future deliveries will be increased to offset the missed deliveries. The Company has the option of pre delivering against the facility at its discretion. The loan is secured by substantially all of the assets of the Company.

The Company has designated the RMBAH facility as a financial liability at fair value through profit or loss. As at June 30, 2013 and December 31, 2012, the Company has recorded cumulative mark to market gains and (losses) on this debt of \$6,236,900 and (\$19,695,700), respectively. The mark to market gains and (losses) are the difference between the spot price of repayable gold ounces as at June 30, 2013 and December 31, 2012 and the aggregate of the agreed upfront payment price plus the delivery price. In July 2012, the Company obtained a new delivery schedule where 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. For the three months ended June 30, 2013 and 2012, the Company recorded mark to market gains and (losses) of \$22,320,200 and (\$5,086,600) respectively. For the six months ended June 30, 2013 and 2012, the Company recorded mark to market gains and (losses) of \$25,932,600 and (\$5,086,600) respectively, in the accompanying unaudited condensed interim consolidated statements of loss and comprehensive loss.

On October 18, 2012, the Company completed a secured short-term bridge loan in the maximum amount of \$12 million from RMBAH which was later amended in May 2013 to increase its available funds to \$20 million. The original bridge loan was subject to a 5% loan origination fee which was paid in 2012 upon the Company's first draw down of the bridge loan. Subsequent to the amendment, the bridge loan will be available for monthly drawdowns dependent on meeting certain operating criteria. The bridge loan has a repayment date of June 30, 2014. 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 June 30, 2013, was LIBOR plus 15% per annum. Beginning July 1, 2013 the interest rate was amended to Libor plus 10% per annum. Interest is payable monthly in cash in arrears. The security granted by the Company is consistent with that under the existing prepaid gold facility with RMB. The Company may prepay the credit facility without penalty at any time, subject to 5 days' notice, any broken period costs and with a minimum prepayment amount of US\$250,000. As at June 30, 2013 and December 31, 2012, \$14,788,200 and \$7,500,000 had been drawn down on the bridge loan, respectively. The bridge loan is subject to 5% loan origination fee of available funds. During the six months ended June, 30, 2013, the Company paid a \$400,000 loan origination fee on the increase on the bridge loan's available

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9. LOAN FACILITY (CONTINUED)

funds. During the three and six months ended June 30, 2013, the Company recognized amortization expense of \$357,600 and \$486,200, respectively, related to the loan fees. During the three and six months ended June 30, 2013 the Company paid \$481,200 and \$756,100, respectively, in interest expense related to the bridge loan. During the three and six months ended June, 30, 2013, the Company capitalized interest expense of \$360,900 and \$567,100 related to the construction of the Lincoln Mine Project and expensed the remaining \$120,300 and \$189,000 as finance costs.

The current and long-term portion of the RMBAH facility including related mark-to-market losses and RMBAH Bridge Loan as at June 30, 2013 and December 31, 2012 are as follows:

| | As at June 30, 2013 | | | As at December 31, 2012 | | |
|-------------------|---------------------|---------------------|---------------------|-------------------------|---------------------|---------------------|
| | Current Portion | Long-term Portion | Total | Current Portion | Long-term Portion | Total |
| RMBAH Facility | \$ 3,173,800 | \$10,589,300 | \$13,763,100 | \$ 8,511,000 | \$31,184,700 | \$39,675,700 |
| RMBAH Bridge Loan | 14,788,200 | - | 14,788,200 | 7,500,000 | - | 7,500,000 |
| | <u>\$17,962,000</u> | <u>\$10,589,300</u> | <u>\$28,551,300</u> | <u>\$16,011,000</u> | <u>\$31,184,700</u> | <u>\$47,195,700</u> |

10. SHARE CAPITAL AND OTHER EQUITY

As at June, 2013 and December 31, 2012, the Company had authorized an unlimited number of common shares without par value, and outstanding were 121,655,366 and 121,182,065 shares as at June 30, 2013 and December 31, 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. June 30, 2013 and December 31, 2012, 718,352 of these shares have not been tendered. All outstanding shares are fully paid.

On January 16, 2013, the Company completed the second tranche of a non-brokered private placement of 473,301 common shares at a price of C\$0.30 for proceeds of \$135,500, net of \$6,500 in issuance costs.

The Company has authorized an unlimited number of preference shares with no par value. On June 30, 2013 and December 31, 2012, 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.

11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has reserved for the purpose of the stock option plan (the "Plan") up to 10% of the issued common shares for the granting to directors, officers and employees. The Company follows the applicable accounting standard for stock-based compensation under which the fair value method is used for the accounting of stock options granted, and compensation expense is recognized over the options' vesting period for options granted to officers and directors and as services are rendered for options granted to consultants.

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

A summary of the status of the Plan as at June 30, 2013 and December 31, 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/expired | (125,000) | 0.29 |
| Options Granted | 369,000 | 0.31 |
| Balance outstanding December 31, 2012 | 5,678,000 | 0.17 |
| Options forfeited/expired | (170,000) | 0.18 |
| Balance outstanding June 30, 2013 | 5,508,000 | 0.17 |

As at June 30, 2013, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

| 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 |
| September 14, 2009 | 500,000 | 0.11 | B | September 14, 2014 |
| May 1, 2011 | 100,000 | 0.19 | C | May 1, 2016 |
| June 1, 2011 | 24,000 | 0.18 | C | June 1, 2016 |
| July 19, 2011 | 1,475,000 | 0.18 | D | July 19, 2011 |
| August 1, 2011 | 240,000 | 0.25 | C | August 1, 2016 |
| November 1, 2011 | 1,500,000 | 0.20 | E | November 1, 2016 |
| November 11, 2011 | 60,000 | 0.20 | C | November 11, 2016 |
| December 21, 2011 | 60,000 | 0.19 | C | December 21, 2016 |
| January 3, 2012 | 24,000 | 0.20 | C | January 3, 2017 |
| March 27, 2012 | 45,000 | 0.28 | C | March 27, 2017 |
| April 2, 2012 | 90,000 | 0.29 | C | April 2, 2017 |
| August 20, 2012 | 45,000 | 0.37 | C | August 20, 2017 |
| November 12, 2012 | 45,000 | 0.39 | C | November 12, 2017 |
| June 30, 2013 Balance | 5,508,000 | | | |

- 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.

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

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 average share price volatility. The inputs used in the measurement of fair value at 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 |
|-------------------|--------------------------|---------------------------|----------------|--|----------------------------------|--------------------|-------------------------|
| February 16, 2011 | C\$0.190 | C\$0.22 | C\$0.22 | 172% | 5 | - | 2.27% |
| May 1, 2011 | C\$0.164 | C\$0.19 | C\$0.19 | 172% | 5 | - | 2.01% |
| 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% |
| August 1, 2011 | C\$0.201 | C\$0.25 | C\$0.25 | 178% | 5 | - | 1.55% |
| 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% |
| December 21, 2011 | C\$0.179 | C\$0.19 | C\$0.19 | 124% | 5 | - | 1.85% |
| January 3, 2012 | C\$0.151 | C\$0.20 | C\$0.20 | 148% | 5 | - | 0.95% |
| March 27, 2012 | C\$0.245 | C\$0.28 | C\$0.28 | 146% | 5 | - | 1.12% |
| April 2, 2012 | C\$0.239 | C\$0.29 | C\$0.29 | 146% | 5 | - | 1.19% |
| August 20, 2012 | C\$0.306 | C\$0.37 | C\$0.37 | 135% | 5 | - | 1.00% |
| November 12, 2012 | C\$0.293 | C\$0.39 | C\$0.39 | 133% | 5 | - | 1.08% |

12. INCOME (LOSS) PER SHARE

(a) Basic

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|--|----------------|--------------------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income (loss) attributable to common shareholders | \$ 20,727,100 | \$ (3,470,400) | \$ 23,180,000 | \$ (9,823,900) |
| Weighted average number of common shares in issue | 119,364,143 | 115,219,943 | 119,364,143 | 115,219,943 |
| Basic loss per share | \$ 0.17 | \$ (0.03) | \$ 0.19 | \$ (0.09) |

(b) Diluted

Diluted (loss) per share has not been presented as this calculation is anti-dilutive, as at December 31, 2012, 5,214,000 options would have been dilutive had the calculation been required. As at June 30, 2013, 3,299,000 options were dilutive. Diluted income per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares issued during the period plus all dilutive potential common stock.

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12. INCOME (LOSS) PER SHARE (CONTINUED)

| | For the three months ended June 30, 2013 | For the six months ended June 30, 2013 |
|--|---|---|
| Net income (loss) attributable to common shareholders | \$ 20,727,100 | \$ 23,180,000 |
| Weighted average number of common shares in issue and dilutive options outstanding | 122,663,143 | 122,663,143 |
| Diluted income per share | <u>\$ 0.17</u> | <u>\$ 0.19</u> |

13. FINANCIAL RISK MANAGEMENT

(a) Credit risk management

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company 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 June 30, 2013 and December 31, 2012:

| | June 30, 2013 | | | | |
|--|----------------------|---------------------------|-------------------|---------------|----------------------|
| | Carrying Amount | Contractual cash flows | 1 year or less | 2-5 years | More than 5 years |
| Accounts payable and accrued liabilities | \$ 480,600 | \$ 480,600 | \$ 480,600 | \$ - | \$ - |
| Leases payable | \$ 67,000 | \$ 67,000 | \$ 67,000 | \$ - | \$ - |
| Notes payable | \$ 28,551,300 | \$ 28,551,300 | \$ 17,962,000 | \$ 10,589,300 | \$ - |
| Reclamation liability | \$ 23,300 | \$ 23,300 | \$ - | \$ - | \$ 23,300 |
| Mineral leases | \$ - | \$ 428,000 | \$ 21,600 | \$ 115,000 | \$ 291,400 |

(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 | \$ - | \$ - |
| Notes 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 |

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13. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 \$487,100.

(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 during the three months ended March 31, 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 June 30, 2013 and December 31, 2012 as any fluctuation is not material to the Company's financial statements.

(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 June 30, 2013 and December 31, 2012 and the aggregate of the agreed upfront payment price per ounce plus the delivery price of per ounce. (Refer also to Note 10. 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 unaudited condensed interim consolidated statement of financial position 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 June 30, 2013 | | | |
|-------------------|-------|--------------------------------|-----------------|------------------|---------------|
| | | Level I | Level II | Level III | Total |
| RMBAH Facility | | \$ - | \$ 13,763,100 | \$ - | \$ 13,763,100 |
| RMBAH Bridge Loan | | 14,788,200 | - | - | 14,788,200 |
| | Total | \$ 14,788,200 | \$ 13,763,100 | \$ - | \$ 28,551,300 |
| | | As at December 31, 2011 | | | |
| | | 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 |

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14. CAPITAL RISK MANAGEMENT

The Company manages its cash and cash equivalents, common shares, stock options and warrants 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.

The Company manages its common shares, options 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 out 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.

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 2013.

15. RELATED PARTY TRANSACTIONS

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

During the three and six months ended June 30, 2013, the Company paid interest in the amount of \$481,200 and \$756,100, respectively, to RMB Australia Holdings in respect to the 2012 bridge loan as outlined in Note 10.

The remuneration of key management personnel of the Company for the three months ended June 30, 2013 and 2012 was as follows:

| | For the three months ended | | For the six months ended | |
|------------------------------|-----------------------------------|-------------------|---------------------------------|-------------------|
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Short-term employee benefits | \$ 389,100 | \$ 242,500 | \$ 585,400 | \$ 475,000 |
| Share based compensation | - | 33,400 | - | 69,400 |
| | <u>\$ 389,100</u> | <u>\$ 275,900</u> | <u>\$ 585,400</u> | <u>\$ 544,400</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.

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

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

16. COMMITMENTS

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, 2013 and December 31, 2012 as there was no present obligation.

17. SUBSEQUENT EVENTS

On July 31, 2013, the Company reached an agreement with 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.