

SUTTER GOLD MINING INC.
Management's Discussion and Analysis
For the six months ended June 30, 2013
(Containing information up to and including August 28, 2013)

This Management's Discussion and Analysis ("MD&A") is an overview of the financial conditions and operations of Sutter Gold Mining Inc. and its subsidiaries (together, "Sutter" or "the Company") for the six months ended June 30, 2013. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and accompanied notes for the years ended December 31, 2012 and 2011. Both of these referenced financial statements, the Company's statutory filings, and additional information is available on SEDAR www.sedar.com and on the Company's website www.suttergoldmining.com.

All currency amounts are expressed in US dollars unless otherwise noted. The effective date of the MD&A is August 28, 2013. This MD&A contains statements that constitute "forward-looking statements" and other cautionary notices (Refer to "Forward Looking Statements").

The annual audited consolidated financial statements for the year ended December 31, 2012 were prepared in accordance with International Financial Reporting Standards ("IFRS") 1. The unaudited condensed interim consolidated financial statements for the quarters ended June 30, 2013, March 31, 2013, June 30, 2012 and March 31, 2012 were prepared in accordance with International Accounting Standard ("IAS") 34 under IFRS.

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

Business Overview

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

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

The Company's principal assets are the Sutter Gold Mine and Lincoln Project located in the historic Mother Lode District 45 miles southeast of Sacramento, California. The Sutter Gold Mine and Lincoln Project are situated on a 551-acre block of surface and mineral rights owned in fee or leased from fee owners, in the central part of the 121-mile-long Mother Lode gold belt. The Company's property lies within a 10-mile section of the Mother Lode belt which is credited with historic production of 7.8 million ounces of gold. This property had a recorded production of approximately 3.4 million ounces of gold, essentially all recovered prior to 1920. Records indicate that these formerly producing mines had documented reserves at the time of their closing that have not been recovered.

Sutter's Board of Directors has approved the development of the Lincoln Project, based upon the conclusions of a Preliminary Economic Assessment ("PEA") (see news releases "Sutter Gold Announces Positive Preliminary Economic Assessment for the Lincoln Mine Gold Project" dated May 4, 2011 and "Sutter Gold Announces Positive Production Decision for the Lincoln Mine Gold Project and Agrees to a \$20 Million Prepaid Gold Project Finance Facility" dated June 22, 2011). The PEA is based on a mine plan containing 244,800 tons of potentially minable material grading 0.46opt (15.8g/t) including mining dilution and losses. An underground mining operation with a 5-

year mine life is considered, processing 150 tons per day using conventional gravity and flotation recovery producing 22,300 ounces of gold annually. Preproduction development began in October 2011 but was suspended during the first quarter of 2013 due to the volatility in gold prices. The Company will resume the next phase of development, which will involve approximately 1,850 feet of underground development, in the third quarter of 2013. The Company's short range goal is to achieve regulatory compliance for production mining operations with the completion of raise work required for the establishment of secondary egress as well as ventilation. Additionally, the Company will allow access to mining of the initial stope panels as well as enhance the deposit model through additional exposure of the ore body. The mill, currently 95% complete, will be commissioned with the processing of approximately 1,500 tons of mined material currently stockpiled at the mill and 1,500 tons of new mined material expected to be produced from continuing underground development.

The Company has implemented various management and personnel changes. Approximately one-third of the staff positions at the Lincoln Mine site were eliminated in July 2013 along with the position of Chief Operating Officer. The remaining personnel will continue with execution of the next stage of planned mine development. Richard Winters of RMB Resources and a Director since July 2008 has been appointed interim President and CEO. Dr. Leanne Baker, who served as President and CEO since November 2011 will continue as a member of the Board. See news release "Sutter Gold Implements Cost Cutting Measures and Provides Development Update" dated July 3, 2013)

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

The Company believes the potential for extending the mine life beyond 5 years exists within the Lincoln-Comet resource. Several mineralized zones in both the Lincoln-Comet and Keystone areas remain open down plunge to the southeast and to depth. Sutter's Board of Directors approved a \$1.2 million exploration program to further identify mineral resources in the immediate Lincoln and Comet areas (see news release "Sutter Gold Plans Drilling to Expand Resources at its Lincoln Mine Project and Provides Development Update" dated October 13, 2011).

Sutter Gold Mining Inc. is a Vancouver, British Columbia-based company, with a management office in Denver, Colorado and its mine office in Sutter Creek, California. The Company's shares trade on the Toronto Stock Exchange (TSX-V) under the symbol "SGM" and on the U.S. Over-the-Counter market (OTCQX) under the symbol "SGMNF".

Selected Annual Financial Information

(Expressed in US dollars)

| | For the year ended | | |
|--|---------------------------|-----------------|----------------|
| | December 31, | | |
| | 2012 | 2011 | 2010 |
| Total revenues | \$ - | \$ - | \$ - |
| Operating costs and expenses | \$ 6,023,100 | \$ 3,515,900 | \$ 2,841,000 |
| Net loss* | \$ (18,428,900) | \$ (10,423,300) | \$ (4,633,400) |
| Net loss per share – basic and diluted** | \$ (0.16) | \$ (0.10) | \$ (0.05) |
| | As at December 31, | | |
| | 2012 | 2011 | 2010 |
| Total assets | \$ 18,208,900 | \$ 6,961,800 | \$ 1,117,100 |
| Non-current financial liabilities | \$ 31,208,000 | \$ 17,718,400 | \$ 23,300 |
| Cash dividends | \$ - | \$ - | \$ - |

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

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

Selected Quarterly Financial Information

(Expressed in US Dollars)

(Unaudited)

| | For the three months ended | | | For the six months ended | | |
|---|----------------------------|-----------------------|---------------------|--------------------------|-----------------------|---------------------|
| | June 30, | | | June 30, | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Operating expenses | | | | | | |
| Wages and benefits | 595,000 | 533,700 | 298,200 | 1,038,200 | 974,900 | 503,600 |
| Professional & contract services | 139,900 | 159,400 | 93,100 | 290,200 | 278,100 | 162,200 |
| Mine property holding costs | 124,000 | 306,600 | 183,100 | 270,800 | 480,100 | 315,500 |
| Office & administrative | 111,400 | 86,400 | 71,100 | 210,300 | 184,500 | 141,000 |
| Travel & entertainment | 51,900 | 53,900 | 32,600 | 107,100 | 110,200 | 68,200 |
| Rent & electricity | 30,100 | 30,500 | 24,600 | 56,900 | 56,800 | 48,700 |
| Depreciation | 17,000 | 24,500 | 17,800 | 40,300 | 50,800 | 31,600 |
| Share-based payments | 9,000 | 51,800 | 27,500 | 20,600 | 107,800 | 28,200 |
| Exploration | - | 265,000 | - | - | 523,000 | - |
| Feasibility study | - | - | 42,000 | - | 13,200 | 168,800 |
| Loss (gain) on disposal of assets | 44,300 | - | (31,900) | 44,300 | - | (31,900) |
| (Gain) loss on foreign exchange | (300) | 2,300 | 1,700 | 2,400 | 2,600 | 1,600 |
| | <u>1,113,200</u> | <u>1,514,100</u> | <u>759,800</u> | <u>2,081,100</u> | <u>2,782,000</u> | <u>1,437,500</u> |
| Loss from operations | (1,122,300) | (1,514,100) | (759,800) | (2,081,100) | (2,782,000) | (1,437,500) |
| Interest income | 100 | 1,200 | 200 | 800 | 2,200 | 400 |
| Other income | - | - | 6,500 | - | - | 12,300 |
| Finance costs | (480,000) | - | (213,400) | (681,400) | - | (412,000) |
| Change in fair value of warrant derivative | - | - | 745,700 | - | - | 934,700 |
| Mark to market adjustment note payable | 22,320,200 | (1,957,500) | - | 25,932,600 | (7,044,100) | - |
| | <u>21,840,300</u> | <u>(1,956,300)</u> | <u>539,000</u> | <u>25,252,000</u> | <u>(7,041,900)</u> | <u>535,400</u> |
| Net Income (loss) and comprehensive Income (loss) for the period | \$ 20,718,000 | \$ (3,470,400) | \$ (220,800) | \$ 23,170,900 | \$ (9,823,900) | \$ (902,100) |
| Net income (loss) per share: | | | | | | |
| Basic and diluted income (loss) per share attributable to common shareholders | \$ 0.17 | \$ (0.03) | \$ (0.01) | \$ 0.19 | \$ (0.09) | \$ (0.01) |

Summary of Quarterly Results, Q2 2011-Q1 2013

| Expressed In \$ | June 2013 | March 2013 | December 2012 | September 2012 | June 2012 | March 2012 | December r 2011 | September 2011 |
|-------------------------------|-------------------|---------------|------------------|-------------------|--------------|--------------------|--------------------|-------------------|
| Operating revenues | - | - | - | - | - | - | - | - |
| Net income (loss) | 20,718,000 | 2,452,900 | (3,936,400) | (12,541,400) | (3,470,400) | (6,353,500) | (504,700) | (9,016,500) |
| Basic Income (loss) per share | 0.17 | 0.02 | (0.00) | (0.09) | (0.00) | (0.06) | (0.00) | (0.09) |
| Diluted Income per share | 0.17 | 0.02 | - | - | - | - | - | - |

Diluted and basic incomes per share are equivalent. Since a loss per share is anti dilutive it has not been shown above.

Results of Operations three months ended June 30, 2013 and 2012

Sutter's net income for the three months ended June 30, 2013 was \$20,718,000 or \$0.17 per common share compared with a net loss of \$3,470,400 or \$0.03 per share during the same period in 2012. The major reason for the increased income was the mark-to-market gain recorded on the Company's RMBAH prepaid gold facility ("RMBAH Facility"). The Company has designated the RMBAH Facility as a financial liability at fair value through profit or loss as permitted by IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of gold price declining in the second quarter of 2013, the Company recorded mark to market gains on this debt of \$22,320,200 for the three months ended June 30, 2013 compared with mark-to-market losses of \$1,957,500 for the three months ended June 30, 2012. The mark to market gains and losses are the difference between the spot price of repayable gold ounces as at the June 30, 2013 and 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. Finance costs for the three months ended June 30, 2013 were \$480,000 compared to \$0 for the same period in 2012. Included in finance costs for the three months ended June 30, 2013 were interest costs of \$122,400 and loan transaction fee amortization of \$357,600. The increased finance costs were due to the Company obtaining a new bridge loan facility in October 2012 and related increase in the facility in May 2013 ("Bridge Loan").

Operating costs and expenses for the three months ended June 30, 2013 and 2012 were \$1,122,300 and \$1,514,100, respectively. The main reason for the decreased operating costs during the second quarter of 2013 was the Company's suspension of development of its Lincoln Project as well as cut backs in general operations in an effort to preserve cash due to the deteriorating gold prices and difficulties present in raising equity financing. Mine and property holding costs decreased \$182,600 from \$306,600 for the three months ended June 30, 2012 to \$124,000 for the three months ended June 30, 2013. These costs decreased due to the completion of various site permits which reduced environmental testing and related costs, as well as non-renewal of the Fancher Trust lease. Share-based compensation was \$9,000 and \$51,800 for the three months ended June 30, 2013 and 2012, respectively, as a result of less stock options being issued to employees and directors in 2013. Additionally, during the three months ended June 30, 2012, the Company incurred \$265,000 in exploration costs related to the Company's drilling program at the Lincoln and Comet segments of the Lincoln Mine project. This activity began winding down in the fourth quarter of 2012.

The changes quarter over quarter are due to the Company's mine development and not seasonality.

Results of Operations six months ended June 30, 2013 and 2012

Sutter's net income for the six months ended June 30, 2013 was \$23,170,900 or \$0.19 per common share compared with a net loss of \$9,823,900 or \$0.09 per share during the same period in 2012. The major reason for the increased income was the mark-to-market gain recorded on the Company's RMBAH prepaid gold facility ("RMBAH Facility").

The Company has designated the RMBAH Facility as a financial liability at fair value through profit or loss as permitted by IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of gold price declining in the second quarter of 2013, the Company recorded mark to market gains on this debt of \$25,932,600 for the six months ended June 30, 2013 compared with mark-to-market losses of \$7,044,100 for the six months ended June 30, 2012. The mark to market gains and losses are the difference between the spot price of repayable gold ounces as at the June 30, 2013 and 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. Finance costs for the six months ended June 30, 2013 were \$681,400 as compared to \$0 for the same period in 2012. Included in finance costs for the six months ended June 30, 2013 were interest costs of \$195,200 and loan transaction fee amortization of \$486,200. The increased finance costs were due to the Company obtaining a new bridge loan facility in October 2012 and related increase in the new facility in May 2013 (“Bridge Loan”).

Operating costs and expenses for the six months ended June 30, 2013 and 2012 were \$2,081,100 and \$2,782,000, respectively. The main reason for the decreased operating costs during the second quarter of 2013 was the Company’s suspension of development of its Lincoln Project as well as cut backs in general operations in an effort to preserve cash due to the deteriorating gold prices and difficulties present in raising equity financing. During the six months ended June 30, 2013, mine and property holding costs decreased to \$270,800 from \$480,100 for the six months ended June 30, 2012. These costs decreased due to the completion of various site permits which reduced environmental testing and related costs, as well as non-renewal of the Fancher Trust lease. Share-based compensation was \$20,600 and \$107,800 the six months ended June 30, 2013 and 2012, respectively, as a result of less stock options being issued to employees and directors in 2013. Additionally, during the six months ended June 30, 2012, the Company incurred \$523,000 in exploration costs related to the Company’s drilling program at the Lincoln and Comet segments of the Lincoln Mine project began winding down in the fourth quarter of 2012.

The changes quarter over quarter are due to the Company’s mine development and not seasonality.

Liquidity and Capital Resources

The following table summarizes the Company’s operating, investing and financing cash flow activity for the six months ended June 30, 2013, 2012, and 2011:

| | For the six months ended | | |
|---------------------------------------|---------------------------------|-------------|-------------|
| | June 30, | | |
| | 2013 | 2012 | 2011 |
| Cash used in operating activities | \$2,308,400 | \$2,388,700 | \$1,676,300 |
| Cash used in investing activities | \$5,584,100 | \$3,613,600 | \$148,700 |
| Cash provided by financing activities | \$7,023,700 | \$8,133,100 | \$1,581,600 |

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.

The following table summarizes the Company’s working capital deficiency and cash and cash equivalent balances as at June 30, 2013 and December 31, 2012:

| | As at June 30, 2013 | As at December 31, 2012 |
|----------------------------|------------------------------------|--|
| Working capital deficiency | \$ 17,832,500 | \$16,270,300 |
| Cash | \$ 376,400 | \$ 1,245,200 |

The following are the contractual maturities of the Company's financial obligations as at 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 |

At June 30, 2013 and December 31, 2012, Sutter had working capital deficiencies of \$17,832,500 and \$16,270,300, respectively. The main causes of the working capital deficiencies are the borrowings on the RMBAH Facility along with its related mark-to market losses and the Bridge Loan. The increase in the deficiency is due to increased borrowings on the Company's bridge loan entered into in the fourth quarter of 2012 which was offset with a cumulative mark to market gain recorded on the RMBAH Facility due to the decreased gold price as at June 30, 2013. As at June 30, 2013 and December 31, 2012, the Company had drawn \$14,788,200 and \$7,500,000, respectively, on the Bridge Loan and \$20,000,000 on the RMBAH Facility. As at June 30, 2013 and December 31, 2012, cumulative mark to market gains (losses) of \$6,236,900 and (\$19,695,700), respectively, had been recorded on the Company's RMBAH Facility. Due to the increased debt balances, the Company's current portion of notes payable increased from \$16,011,000 as at December 31, 2012 to \$17,962,000 as at June 30, 2013. Cash totaled \$376,400 at June 30, 2013, compared with \$1,245,200 at December 31, 2012. The decrease in cash is due to expenses related to the development of the Lincoln Mine Project prior to the suspension of development. Offsetting the cash decrease from the Lincoln Mine Project expenses was the additional \$7,288,200 drawn down from the Bridge Loan during the six months ended June 30, 2013. During the six months ended June 30, 2013 and 2012, the Company spent \$2,308,400 and \$2,388,700 on operating activities. The decrease in cash used in operating expenses in 2013 is due to the Company's effort to conserve cash during declining junior resource markets. Cash used in investing activities for the six months ended June 30, 2013 and 2012 was \$5,584,100 and \$3,613,400, respectively. The increase in 2013 is due to the Company's construction of the Lincoln Mine Project which commenced in the second quarter of 2011. The Company's cash provided by financing activities was \$7,023,700 and \$8,133,100 during the six months ended June 30, 2013 and 2012, respectively. The decrease in financing activities is due to the Company's decreased cash needs as a result of suspension of development and reduced operating expenses.

In June 2011, the Company entered into an agreement with RMB Australia Holdings Limited ("RMBAH") to help fund the cost of developing the Lincoln Mine project. RMBAH is related to RMB as both companies are subsidiaries of the FirstRand Group. The project finance facility is a secured prepaid gold loan in the amount of \$20 million. The Company commenced drawing down the loan in July 2011 and as at June 30, 2013 and December 31, 2012, had drawn down all \$20 million. Approximately \$6.6 million of the drawdowns to date were used to repay a prior RMBAH short-term loan facility in July 2011.

The Company has drawn down all of the RMBAH facility as at June 30, 2013 in order to fund the construction and development of the Lincoln Mine Project. Under the original terms, repayment of the RMBAH Facility was required to begin at the end of July 2012, 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 will deliver a total of 54,942 ounces of gold with the first delivery in January, 2013 and the last delivery in October, 2017. Under the agreement, 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. Total gold production deliverable to RMBAH under the original schedule was limited to 53,027 ounces. The Company has the option of pre-delivering against the facility at its discretion. For the gold delivered as repayment of the prepaid gold facility, the Company will receive \$942 per ounce, and it will receive market price for the remainder of the gold sold. The Company has not yet made any deliveries under the terms of the loan and has received waivers for all deliveries due to date.

During the six months ended June 30, 2013 and 2012, the Company recorded mark to market gains and (losses) on the prepaid gold facility of \$25,932,600 and (\$7,044,100), respectively. The mark to market is calculated as the difference between the spot price of repayable gold ounces as at June 30, 2013 and 2012 and the aggregate of the agreed upfront payment price per ounce plus the delivery price. As at June 30, 2013, the Company had 54,942 repayable ounces at the spot price of \$1,192. The upfront payment price as at June 30, 2013 was \$364 and the delivery price as at June 30, 2013 was \$942 per ounce.

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, 2014, 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 was 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 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 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 cost in the accompanying unaudited condensed interim consolidated statements of loss and comprehensive loss, respectively.

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

| | As at March 31, 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 |
| | \$17,962,000 | \$10,589,300 | \$28,551,300 | \$16,011,000 | \$31,184,700 | \$47,195,700 |

The Company raised \$142,000 in equity financing during the six months ended June 30, 2013. However, significant additional funding is required to rectify the working capital deficiency, for ongoing operating expenses, and to complete the development of the mine in order to achieve commercial production.

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

As at June 30, 2013 and December 31, 2012, the deficit was \$41,605,100 and \$64,776,000, respectively. The decrease was the result of the net income of \$23,170,900 for the six months ended June 30, 2013 as a result of the Company's mark to market gains on its RMBAH Gold Facility.

Mine Under Development

As at June 30, 2013 and December 31, 2012, the cost of the Company's mine under development totaled \$21,526,700 and \$17,542,400 offset by accumulated depreciation of \$676,200 and \$982,700, respectively. For the six months ended June 30, 2013 and 2012, depreciation expense totaled \$40,300 and \$50,800, respectively. During the six months ended June 30, 2013 and 2012, the Company capitalized \$4,375,400 and \$3,742,200 mine under development costs, respectively. The increase in 2013 additions relates to the construction of the Lincoln Mine Project which commenced in the second quarter of 2011. Below is a summary of the Company's mine under development additions for the six months ended June 30, 2013 and 2012.

| | 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 |

During the six months ended June 30, 2013 and 2012, the Company incurred \$756,100 and \$0 of interest expense related to the short term bridge loan. Of this amount, the Company capitalized interest expense of \$567,100 related to the construction of the Lincoln Mine Project.

Reclamation Bond

Future reclamation and mine closure costs will be the responsibility of the Company and are based on legal and regulatory requirements. The laws and regulations are continually changing and are generally becoming more restrictive. The Company believes it is in compliance with applicable laws and regulations and expects to make future expenditures to comply with these laws and regulations. Current estimated reclamation obligations of \$23,300 are secured by a \$30,000 and \$27,000 reclamation bond as at June 30, 2013 and December 31, 2012, respectively.

Transactions with Related Parties

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

During the 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 9.

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.

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

Significant Accounting Judgments and Estimates

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

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 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.

Off-Balance Sheet Arrangements

The Company had no off balance sheet arrangements as at June 30, 2013 and December 31, 2012.

Financial Instruments

The Company's financial assets and liabilities include cash and cash equivalents, restricted investments, accounts receivable, accounts payable and accrued liabilities, warrants and note payable. The Company is exposed to interest rate risk related to its short term bridge loan. The bridge loan incurs interest based on the 30-day LIBOR rate plus 11.5% during 2012. A 10% increase in the LIBOR rate would have increased the Company's interest expense by the amount of \$487,100. The Company is not exposed to significant currency, or credit risk arising from its financial instruments. All the Company's funds are held in accounts at major banks in Canada and the United States. As discussed previously, the Company has designated the RMBAH Facility as a financial liability at fair value through profit or loss. The Company recognizes a mark to market gain or loss on this debt based on the difference between the spot price of repayable gold ounces as at the date of the statement of financial position and the aggregate of the agreed upfront payment price per ounce plus the delivery price per ounce. Therefore the Company is exposed to commodity price risk related to the mark to market gains or losses on the note payable. The Company has accepted this risk and has not tried to mitigate the risk.

The Company's financial instruments and respective fair values as at June 30, 2013 and December 31, 2012 are as follows:

| | Carrying amount | Fair value | Carrying amount | Fair value |
|-----------------------------|------------------------|---------------|----------------------------|---------------|
| | As at June 30, 2013 | | As at December 31, 2012 | |
| RMBAH Facility | \$13,763,100 | \$13,763,100 | \$39,695,700 | \$39,695,700 |
| RMBAH Bridge Loan | \$14,788,200 | \$14,788,200 | \$ 7,500,000 | \$ 7,500,000 |
| Unrecognized (losses)/gains | | \$ - | | \$ - |

Outstanding share data

The authorized share capital of the Company consists of an unlimited number of common shares with no par value of which 121,655,366 and 121,182,065 were issued and outstanding as at June 30, 2013 and December 31, 2012, respectively. As at June 30, 2013 and December 31, 2012 the Company's common share capital was \$27,262,300 and \$27,126,800, respectively. As at August 28, 2013 the Company had 121,655,366 shares issued and outstanding. Of the shares outstanding as at June 30, 2013 and December 31, 2012, 718,352 were allotted to the Company's former shareholders who may tender their shares in the future (Refer to Note 1 of the unaudited condensed interim consolidated financial statements). On a diluted basis, as at June 30, 2013 and December 31, 2012, the Company had 127,417,779 and 117,334,389 shares outstanding, respectively.

On January 16, 2013, the Company announced the completion of the second and final tranche of this non-brokered private placement of 473,301 common shares at a price of USD\$0.30 per common share for gross proceeds of USD\$142,000. The Company paid issuance costs of USD\$6,500 related to the issuance of these shares.

The Company has authorized an unlimited number of preference shares with no par value. On June 30, 2013 and December 31, 2012 and August 28, 2013 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.

Stock Options:

During the six months ended June 30, 2013 and 2012, the Company expensed \$20,600 and \$107,800, respectively, of share-based payments related to its Employee Share Option Plan.

During the six months ended June 30, 2013 and 2012, there were no exercises of stock options. As at June 30, 2013 and December 31, 2012, the Company had 5,508,000 and 5,678,000 stock options outstanding. If all the remaining June 30, 2013 outstanding options were to be exercised, the Company's available cash would increase by C\$921,500.

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at June 30, 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 | 0.94 | \$0.11 | 800,000 | \$0.11 | |
| \$0.11 | 500,000 | September 7, 2014 | 1.19 | \$0.11 | 500,000 | \$0.11 | |
| \$0.11 | 500,000 | September 14, 2014 | 1.21 | \$0.11 | 500,000 | \$0.11 | |
| \$0.19 | 100,000 | May 1, 2016 | 2.84 | \$0.19 | 100,000 | \$0.19 | |
| \$0.18 | 24,000 | June 1, 2016 | 2.92 | \$0.18 | 24,000 | \$0.18 | |
| \$0.18 | 1,475,000 | July 19, 2016 | 3.05 | \$0.18 | 1,475,000 | \$0.18 | |
| \$0.25 | 240,000 | August 1, 2016 | 3.09 | \$0.25 | 160,000 | \$0.25 | |
| \$0.20 | 1,500,000 | November 1, 2016 | 3.34 | \$0.20 | 1,500,000 | \$0.20 | |
| \$0.20 | 60,000 | November 11, 2016 | 3.37 | \$0.20 | 40,000 | \$0.20 | |
| \$0.19 | 60,000 | December 21, 2016 | 3.48 | \$0.19 | 40,000 | \$0.19 | |
| \$0.20 | 24,000 | January 3, 2017 | 3.52 | \$0.20 | 16,000 | \$0.20 | |
| \$0.28 | 45,000 | March 27, 2017 | 3.74 | \$0.28 | 30,000 | \$0.28 | |
| \$0.29 | 90,000 | April 2, 2017 | 3.76 | \$0.29 | 60,000 | \$0.29 | |
| \$0.37 | 45,000 | August 20, 2017 | 4.14 | \$0.37 | 15,000 | \$0.37 | |
| \$0.39 | 45,000 | November 12, 2017 | 4.37 | \$0.39 | 15,000 | \$0.39 | |
| | 5,508,000 | | | | 5,275,000 | | |

Subsequent Events

The following event occurred subsequent to June 30, 2013:

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.

Proposed Transactions

Management periodically enters into informal discussions with prospective business partners in the normal course of business. However management does not believe that any of these discussions constitute proposed transactions for the purpose of this report.

Company History and Mineral Properties

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

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

On June 12, 2008, RMB Resources Ltd. (“RMB”), a trustee for the Telluride Investment Trust, entered into a private agreement to purchase an aggregate of 39,062,072 (49.9%) common shares of the Company from U.S. Energy Corp.

("USE") for an aggregate purchase price of approximately C\$5,400,000, in accordance with the terms of a share purchase agreement and subject to certain closing conditions. On August 22, 2008, RMB completed the acquisition. As at March 31, 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

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

Upon the change of ownership and appointment of new management, corporate offices were relocated to Lakewood, Colorado and independent accounting, financial, communications, payroll and benefits, insurance, and investor relations systems were established that supports the Company's administration, exploration, mine development, and operational activities. Dr. Leanne Baker was appointed President and CEO effective November 1, 2011. (Refer also to the introductory "Business Overview", above and Note 17, Subsequent Events of the condensed interim consolidated financial statements for the six months ended June 30, 2013.)

Sutter Gold Mine and Lincoln Project, California

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

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

Utilizing the extensive metallurgical data that exists for the deposit, with emphasis on the test work completed by McClelland Labs in 2009, consultants completed a metallurgical process flowsheet and mill design. The process flowsheet for the Lincoln-Comet vein system material begins with crushing run-of-mine material stored in bins at the new mill facility to minus 1.5 inches. Crushed material would be conveyed to a fine-ore bin which feeds a rod mill operated in a closed circuit. A centrifugal gravity unit would produce a concentrate to be tabled and fused into doré. Conventional flotation utilizing non-toxic reagents would produce a flotation concentrate to be shipped offsite for final processing. Tailings would be dewatered and returned to the stopes as backfill or dry-stacked at the permitted Surface Fill Unit. Processing costs are estimated at \$42 per ton of material. Recovery is estimated at 96% total, with 70% reporting to gravity concentrate and 26% reporting to flotation concentrate.

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

Approval of the Board of Directors was granted in Q2 of 2011 to implement the recommendations provided by the technical report and to source funding for the development of the Lincoln Mine Project. In Q3 of 2011, the Company closed on the pre-paid gold loan facility and initiated site preparation and the development of the Lincoln Mine Project pursuant to the recommendations of the NI 43-101 technical study. In Q1 of 2013 the Company determined that construction of surface buildings including the Mill, Shop/Staff Services Building and Sand Barn were substantially complete. In Q2 of 2013 the Company closed out the building permit for and received a certificate of occupancy from Amador County for the Shop/Staff Services Building and moved in. The Company continues to work to close out the remaining building permits and obtain certificates of occupancy for the remaining structures in Q3 of 2013. In the first quarter of 2013, the Company began testing the crushing and grinding circuits in the mill. Complete mineral processing will commence using approximately 1,500 tons of stockpiled low-grade material from development and earlier bulk sample campaigns and an additional 1,500 tons expected to be generated during on-going development work.

The Company began portal construction, using Mark A Suden Mining Construction in Q2 of 2012. The Company commenced Mine Safety and Health Administration (MSHA) jurisdictional operations in July 2012. The Company began underground pre-production development in the third quarter of 2012. The Company completed pre-production development on the 1200 and 1300 levels in Q1 of 2013, continuing work on the 900 and 1100 levels that began in 2012. The Company temporarily suspended underground pre-production development of the Lincoln Project in the first quarter of 2013.

In July 2013 the Company resumed underground pre-production development work having contracted with mine Construction Inc. of Amador County for this phase of development. This new phase of underground development is planned to achieve regulatory compliance for production mining operations with the completion of raise work required for the establishment of secondary egress as well as ventilation. Additionally, the contractor will continue with level development to allow access to and mining of the initial stope panels as well as enhance the deposit model through the additional exposure of the ore body. Currently, the Company plans to complete mill testing and commissioning and the current phase of pre-production development in Q4 of 2013.

The Lincoln Project is subject to local, state and federal permitting requirements administered by over 20 governmental agencies. The Project requires five (5) major operating permits and more than 30 lesser or minor operating permits and approvals. The Company has obtained all five (5) major operating permits. In addition, Sutter has obtained all minor operating permits and approvals for the project components constructed to date.

Having obtained permits for the project elements and operations included in the initial 5-year mine plan, the Company has shifted its focus to permit compliance programs and associated reporting requirements. In the near term this includes activities necessary to comply with five major permits, including Sutter's Conditional Use Permit issued by Amador County and other permits to maintain Sutter's excellent compliance record.

As Sutter progresses from the construction phase to operations, the Company will continue to work closely with the County and other agencies to close out or terminate certain construction permits and transition to operating permits, where applicable. For example, Sutter will need to request final inspections required to close out the remaining building permits for the Mill and Sand Barn. Also, Sutter obtained a permit (Authority to Construct) from the Air Quality Management District. This allows for construction and also testing and limited operation of the Lincoln Mine Project including the mill facility. The Company will file, at the appropriate time, an application to obtain a Permit to Operate that will replace the Authority to Construct for the Project. Also, the Company may need to file for a separate permit to operate the batch plant that will be used to mix cement with tailings for backfilling stopes with tailings. Additionally, the Company has been working under a General Construction Storm Water Permit issued by the State Water Resources Control Board and administered by the California Regional Water Quality Control Board. Sutter filed a Notice of Intent for the industrial permit, which is needed to conduct industrial activities under the state's General Industrial Storm Water permit, and obtained approval in Q1 of 2013. Sutter also will file a Notice of Termination to cease activities under their construction stormwater permit.

In the longer term Sutter is looking to options to amend permits to increase operational flexibility and extend mining towards the Keystone group of mines immediately northwest of the Lincoln-Comet ore zones.

California Properties

On May 3, 2007, the Company settled a Contingent Stock Purchase Warrant liability with U.S. Energy Corp. by the issuance of a Net Profits Interest royalty (“NPIR”) of 5% until an amount of \$4.6 million is repaid, and granting a 1% NPIR thereafter. NPIR is defined as the price received from the sale of gold or other mineralized product that is mined, saved and sold, less mining, milling, processing or refining and transportation costs and allowable taxes and royalties. No amounts have been accrued as a liability as at March 31, 2013 and December 31, 2012 as there was no present obligation.

Lincoln and Comet Properties

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

From 2001 to the end of 2003, the Company renegotiated the principal mineral leases on 205 acres. The new lease terms are 30 years, broken down into ten year segments carrying a 4% production royalty or minimum annual payments as follows for the Lincoln and Comet property. An additional 0.5% net smelter return royalty is held by a consultant to a lessee prior to the acquisition of the properties and covers the same properties in the Lincoln Project. All 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 |

In January 2012 Sutter began an exploration drilling program to expand resources at the Lincoln and Comet segments of the Lincoln Mine Project. Partial assay results received to date for the first three drill holes, which were drilled at the southern or Lincoln segment, confirmed the following: 1) Gold mineralization extends upwards close to the surface; 2) The first drill hole, DDH-196, intersected a true width of 30.5 feet grading 0.121 oz./ton Au including 3.9 feet true width at 0.329 oz./ton Au; 3) The second drill hole, DDH-197, intersected a veined zone of 21.1 feet true width with an average grade of 0.328 oz./ton Au, including 7.1 feet true width grading 0.456 oz./ton Au; and 4) The third drill hole, DDH-198, intersected 3.0 feet grading 2.96 oz./ton Au.

North Gover

Drilling at the North Gover area yielded significant gold intersections in all six drill holes. The most significant findings are as follows: 1) SGD-67 returned 3.016 ounces per ton (opt) over 1.2 feet core interval and 0.338 opt over 2.0 feet core interval within a 14.2 feet intersection calculating to 2.5 feet true width at a weighted average grade of 0.41 opt Au; 2) SGD-66 returned 0.523 opt Au over a 2.0 feet interval within a 23.0 feet gold mineralized intersection calculating to 11.5 feet true thickness at a weighted average grade of 0.111 opt Au; 3) SGD-65 intersected 11.2 feet of 0.142 opt Au for a true thickness of 3.8 feet, 4) SGD-64 returned 0.312 opt Au over 3.0 feet core intersection compositing to 0.9 foot true width at 0.312 opt Au; 5) SGD-63 made a 9.5 feet intersection of 0.200 opt Au calculating to a true thickness of 4.0 feet, and 6) SGD-62 returned 0.341 opt Au over a core interval of 3.6 feet within a down-hole vein interval of 6.1 feet calculating to 3.9 feet true width at a weighted average of 0.224 opt Au.

Eureka Mines

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land immediately adjacent to the Company's properties in California, called the Eureka Property. The lease term is 30 years, broken down into ten year segments carrying a 4% production royalty or a minimum annual payment. As of December 31, 2008, 12,000 common shares were issued to the Eureka Property's owner for the first year's payment and the second through fourth years' payments. All 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. All 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 the existing Sutter Gold properties. The agreement also requires annual base option payments of \$140,000 over the 5-year option period. The agreement gives the Company mineral exploration rights during the option period. Option payments will apply to the purchase price provided that the Company exercises their option to purchase the property. During the three and six months ended June 30, 2013, the Company opted to not renew the lease on a going forward basis.

Ecuador Property - NSR Interest, Portovelo, Ecuador

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

Mexican Property Baja California, Mexico

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

The Company made an initial payment of \$13,300 (C\$15,000) on signing the Exclusive Option Agreement and issued 111,111 of its shares at a price of C\$0.36 on signing the Definitive Agreement on February 7, 2007.

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

On March 29, 2007, the Company signed a letter of intent with Premier to jointly explore the Company's Santa Teresa mineral concession. Premier is to earn an initial 50% interest in the project by issuing 100,000 common shares (received) to the Company, completing \$1.5 million in exploration and acquisition within two years and reimbursing the Company for all option payments (C\$500,000, C\$180,000 reimbursed to report date) due to the vendor over four years. Premier can earn an additional 15% interest in the property (to a 65% interest) by paying a further \$500,000 to the Company and conducting an additional \$4.0 million in exploration on the property.

In January 2008, Premier began the initial 32-hole Phase One drill program at the Santa Teresa Concession in Baja California, Mexico and completed all 32 drill holes by late October 2008 for a total of 7,000 meters (22,800 feet) in the historic and high grade El Alamo District. Drilling results have confirmed the following; 1) Drilling has discovered multiple high-grade veins up to 260 meters along strike from the historic Princessa Gold Mine, whose average production grade exceeded one ounce per ton, 2) Results include multiple intercepts in excess of 34 grams per tonne (about 1.0 ounce per ton) gold between one and three meters within the Princessa structure, 3) Twenty-three significant intercepts with length-weighted average in excess of 35 grams per tonne, and 4) Structures remain open in all directions.

For more information on the drill results, please refer to the news releases available on www.sedar.com.

During the summer of 2008, surface reconnaissance and prospecting confirmed the presence of intense surface alteration blooms coincident with high-grade vein intercepts at depth, and identified several new conceptual drill targets located throughout the Santa Teresa Concession.

In June 2008, Premier announced that it had completed a transaction with Compania Minera Quasaro S.A. de C.V. to purchase the La Victoria Concession for the joint venture. The La Victoria Concession is land-locked within the Santa Teresa Concession and the veins that have been explored in the Phase I program may extend along strike into La Victoria.

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

Risks and Uncertainties

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

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

The success of the Company will depend on numerous factors, including general economic factors; the obtainment of certain approvals; the availability of development and construction capital; the spot price of gold; preparation and execution of an underground development and mining plan which produces the amounts and grades of ore targeted by the plan; construction of a mill which recovers the percentages of gold estimated by the Company; ongoing delineation of sufficient ore reserves in addition to current estimates to sustain mining operations; absence of delays due to

unanticipated underground engineering or production problems, and other factors such as environmental, permitting and other site preparation delays. There is no assurance of favorable determinations of such factors. An unfavorable determination of any one of such factors could significantly delay operations and impair the chances of success for the Company.

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

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

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

Internal Controls Over Financial Reporting

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

Forward Looking Statements

This report includes forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward looking statements are usually identified by our use of certain terminology or phrases, including "will", "believes", "may", "expects", "should", "seeks", "anticipates", "intends" and similar terms, or by discussions of strategy or intentions. Forward-looking statements are statements that are not historical facts, and include but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the effectiveness of the Company's business model; future operations, products and services; the impact of regulatory initiatives on the Company's operations; the size of and opportunities related to the markets for the Company's products; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance.

Forward-looking statements are based upon the beliefs, opinions and estimates of management at the date the statements are made and current expectations at that date. Consequently, as they are used in this MD&A, they are subject to various risks, uncertainties, and unknown factors most of which are difficult to predict and generally beyond the control of the Company. If risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Forward looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. Further, the Company

disclaims any obligation or intention to update or to revise any forward-looking statement, whether as a result of new information, of future events, or otherwise except as may be required under applicable securities legislation.

Additional Information

The Company's web site address is www.suttergoldmining.com. A copy of this MD&A, the unaudited condensed interim consolidated financial statements for the quarter ended June 30, 2013, the audited consolidated financial statements for the years ended December 31, 2012 and 2011 and related MD&A and other information and public filings are available on the Company's web site or on the SEDAR website at www.sedar.com. The Company is listed on the TSX Venture Exchange with the trading symbol "SGM" and also trades on the OTCQX, the top tier of the US Over-the-Counter ("OTC") market under the symbol SGMNF.

Disclaimer

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