SUTTER GOLD MINING INC.

Condensed Interim Consolidated Financial Statements

June 30, 2012 and 2011

(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)

	Notes	**As at June 30, 2012**	**As at December 31, 2011**
Assets			
Current assets			
Cash and cash equivalents		$ 6,129,300	$ 3,998,500
Accounts receivable		7,200	6,100
Prepaid expenses		151,100	181,200
		6,287,600	4,185,800
Non-current assets			
Restricted investments	*7*	77,200	77,000
Property, plant and equipment	*5*	6,390,400	2,699,000
		6,467,600	2,776,000
Total assets		$ 12,755,200	$ 6,961,800
Liabilities and Shareholders' Deficiency			
Current liabilities			
Accounts payable and accrued liabilities	*8*	$ 1,223,800	$ 891,500
Leases payable		67,000	67,000
Current portion of note payable	*9*	7,190,200	1,966,100
		8,481,000	2,924,600
Non-current liabilities			
Reclamation liability	*7*	23,300	23,300
Long-term note payable	*9*	27,648,200	17,695,100
		36,152,500	20,643,000
Shareholders' Deficiency			
Preference shares	*10*	211,200	211,200
Common shares	*10*	26,017,900	26,017,900
Equity reserve – stock options		6,544,600	6,436,800
Deficit		(56,171,000)	(46,347,100)
Total shareholders' deficiency		(23,397,300)	(13,681,200)
Total liabilities and shareholders' deficiency		$ 12,755,200	$ 6,961,800
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 2, 2012. They are signed on the Company's behalf by:

"Leanne Baker" Director *"Mark T Brown"* Director

Sutter Gold Mining Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in US Dollars)
(Unaudited)

	Notes	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Revenues					
Lease revenue		$ -	$ 5,800	$ -	$ 11,600
Wages and benefits		533,700	298,200	974,900	503,600
Exploration		265,000	-	523,000	-
Mine property holding costs		306,600	183,100	480,100	315,500
Professional & contract services		159,400	93,100	278,100	162,200
Office & administrative		86,400	71,100	184,500	141,000
Travel & entertainment		53,900	32,600	110,200	68,200
Share-based payments	*11*	51,800	27,500	107,800	28,200
Rent & electricity		30,500	24,600	56,800	48,700
Depreciation		24,500	17,800	50,800	31,600
Feasibility study		-	42,000	13,200	168,800
Gain on sale of assets		-	(31,900)	-	(31,900)
Loss on foreign exchange		2,300	1,700	2,600	1,600
		1,514,100	759,800	2,782,000	1,437,500
Loss from operations		(1,514,100)	(754,000)	(2,782,000)	(1,425,900)
Interest income		1,200	200	2,200	400
Interest expense		-	(213,400)	-	(412,000)
Other income		-	700	-	700
Change in fair value of warrant derivative	*10*	-	745,700	-	934,700
Mark to market adjustment note payable	*9*	(1,957,500)	-	(7,044,100)	-
		(1,956,300)	533,200	(7,041,900)	523,800
Net loss and comprehensive loss for the period		$(3,470,400)	$ (220,800)	$(9,823,900)	$ (902,100)
Net loss per share:					
Basic and diluted loss per share attributable to common shareholders	*12*	$ (0.03)	$ (0.00)	$ (0.09)	$ (0.01)
Basic and diluted weighted average number of common shares outstanding		115,219,943	103,728,150	115,219,943	103,728,150

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				
		Number of shares	**Amount**	**Number of shares***	**Amount**	**Equity Reserves – Stock Option**	**Deficit**	**Total Shareholders' Deficit**
Balance at January 1, 2011	*10*	254,414	$ 211,200	105,167,492	$ 24,144,300	$ 6,022,100	$ (35,923,800)	$ (5,546,200)
Options exercised	*11*	-	-	74,000	9,800	-	-	9,800
Warrants exercised		-	-	157,000	23,400	-	-	23,400
Fair value of options exercised		-	-	-	11,400	(11,400)	-	-
Share-based payments	*11*	-	-	-	-	28,100	-	28,100
Net loss and comprehensive loss		-	-	-	-	-	(902,100)	(902,100)
Balance at June 30, 2011		254,414	$ 211,200	105,398,492	$ 24,188,900	$ 6,038,800	$ (36,825,900)	$ (6,387,000)
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	*10*	254,414	$ 211,200	117,517,098	$26,017,900	$6,544,600	$(56,171,000)	$(23,397,300)

**Included in this amount originally were 1,787,847 of the Company's common shares allotted to the former shareholders of SGMC for tendering their ownership of SGMC, representing 4% of the 44,577,367 common shares at a deemed value of C$0.26 per common share issued on December 29, 2004 on the acquisition of SGMC. As at June 30, 2012 and December 31, 2011: 718,352 of these shares remained unallotted.*

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,** 2012	2011
Cash flows from operating activities			
Net loss for the period		$ (9,823,900)	$ (902,100)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation		50,800	31,600
Amortization of loan fees		-	92,500
Share-based payment	*11*	107,800	28,100
Change in warrant derivatives	*10*	-	(934,800)
Mark to market adjustment - Note payable		7,044,100	-
Interest expense		-	412,000
		(2,621,200)	(1,272,700)
Accounts receivable		(1,100)	(14,700)
Prepaid expenses		30,100	(35,200)
Accounts payable and accrued liabilities		203,500	58,300
Cash used in operations		(2,388,700)	(1,264,300)
Interest paid		-	(412,000)
Net cash used in operating activities		(2,388,700)	(1,676,300)
Cash flows from investing activities			
Change in restricted investments		(200)	-
Purchase of property, plant and equipment		(3,613,400)	(148,700)
Net cash used in investing activities		(3,613,600)	(148,700)
Cash flows from financing activities			
Proceeds from long-term debt		8,133,100	1,548,400
Proceeds from the exercise of warrants	*10*	-	23,400
Proceeds from the exercise of stock options		-	9,800
Net cash provided by financing activities		8,133,100	1,581,600
Net increase (decrease) in cash		2,130,800	(243,400)
Cash and cash equivalents - Beginning of the period		3,998,500	458,800
Cash and cash equivalents - End of the period		$ 6,129,300	$ 215,400

At June 30, 2012 and December 31, 2011, the Company accrued $602,600 and $473,800, respectively, of property, plant and equipment purchases which are included in accounts payable and accrued liabilities on the accompanying condensed interim consolidated statements of financial position.

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

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, 2012 and December 31, 2011, RMB owned 58,216,820 (49.57%) of the outstanding common shares of the Company.

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 $56,171,000 and $46,347,100 as at June 30, 2012 and December 31, 2011, 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 loan facility arrangement with a related party to cover short-term operating capital requirements as well as build 70% of the Lincoln Project. As a result of entering into the loan facility, the Company has a working capital deficiency as at June 30, 2012 of $2,193,400 and a working capital surplus as at December 31, 2011 of $1,261,200. 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, 2011. These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 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, 2011.

The policies applied in these unaudited condensed interim consolidated financial statements are presented in accordance with IFRS issued and outstanding as of August 2, 2012, the date the Board of Directors approved the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation

These unaudited condensed interim consolidated financial statements are presented in US dollars unless otherwise noted. These unaudited condensed interim consolidated financial statements are prepared on the historical cost basis except for certain financial instruments that are recorded at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(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, 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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(f) Revenue recognition

Lease revenue related to lease of the mine for tours is recorded when earned, determinable and collectability is reasonably assured.

(g) Property, plant and equipment

Land improvements, buildings and equipment and vehicles are carried at cost net of accumulated depreciation. Depreciation of buildings, improvements, machinery and equipment 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(h) Mineral properties

Mineral properties are carried at cost and include the acquisition and pre-production costs related to the properties including exploration costs and all production related assets. 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. As at June 30, 2012 and December 31, 2011, there are no mineral costs capitalized.

(i) Exploration and evaluation

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

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

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

Once the technical feasibility and 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, 2012 and December 31, 2011, there are no mineral costs capitalized.

(j) Impairment of assets

At each financial position reporting date the carrying amounts of the Company's 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 the 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, exploration and evaluation 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(j) Impairment of assets (continued)

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

Mineral properties are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When events or changes in circumstances suggest possible impairment, estimated future net cash flows for a mine or a development project are calculated using estimated future prices, mineral resources and operating and capital costs on an undiscounted basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(k) Foreign currency translation

The functional and presentation currency of the Company is the United States (“US”) Dollar. The Company’s US operation is considered to be an integrated operation. The Canadian parent corporation’s transactions are translated into US Dollars as follows:

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

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

(l) Financial assets and liabilities

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

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

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the financial position reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of assets is recognized in profit or loss, and other changes are recognized in other comprehensive income. Amounts receivable, accounts payable and accrued liabilities that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(l) Financial assets and liabilities (continued)

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

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*. 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. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:
• significant financial difficulty of the issuer or counterparty; or
• default or delinquency in interest or principal payments; or
• it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable and prepaid expenses, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of an amount previously written off is credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. The Company does not have any derivative financial assets; interest is calculated using the effective interest method and foreign exchange gains and losses on monetary items are reported in earnings in the period in which they occur.

Financial instruments recorded at fair value:
Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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.

(m) Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(n) Asset retirement obligations

Obligations 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.

As at June 30, 2012 and December 31, 2011, the Company did not have any asset retirement obligations other than reclamation liabilities as accrued.

(o) Environmental expenditures

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.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

(p) 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.

(q) Interest income

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

(r) Expenses

(i) Operating leases

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Borrowing costs

Borrowing costs are calculated using the effective interest rate method and are recognized in the statement of loss and comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(s) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted 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 (loss) earnings per share if their inclusion would be anti-dilutive.

(t) Comprehensive loss

Comprehensive income or loss includes unrealized gains and losses on certain derivative instruments, none of which are included in the calculation of net earnings until realized.

(u) 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.

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.

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 of 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 the equipment that causes the Company to adjust its estimate.
ii. 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.
iii. 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.

5. PROPERTY, PLANT AND EQUIPMENT

	Land Improvements	Buildings	Equipment and Vehicles	Project Labor	Total
Cost					
Balance at December 31, 2010	$175,100	$343,700	$763,100	$ -	$1,281,900
Additions	19,000	38,200	91,500	-	148,700
Reclassifications	16,100	(16,100)	-	-	-
Balance at June 30, 2011	210,200	365,800	854,600	-	1,430,600
Balance at December 31, 2011	737,500	479,100	1,587,600	759,800	3,564,000
Additions	519,500	1,087,800	1,201,800	933,100	3,742,200
Reclassifications	157,700	-	(157,700)	-	-
Balance at June 30, 2012	$1,414,700	$1,566,900	$2,631,700	$ 1,692,900	$7,306,200

	Land Improvements	Buildings	Equipment and Vehicles	Project Labor	Total
Depreciation					
Balance at December 31, 2010	$ 6,300	$ 220,600	$ 558,400	$ -	$785,300
Additions	1,800	1,600	28,200	-	31,600
Balance at June 30, 2011	8,100	222,200	586,600	-	816,900
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	$ 15,100	$ 227,900	$ 672,800	$ -	$ 915,800

	Land Improvements	Buildings	Equipment and Vehicles	Project Labor	Total
Carrying amounts					
At December 31, 2011	$ 725,900	$ 254,700	$ 958,600	$ 759,800	$ 2,699,000
At June 30, 2012	$ 1,399,600	$ 1,339,000	$ 1,958,900	$ 1,692,900	$ 6,390,400

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.

Years	Annual Payments	
	Lincoln	Comet
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

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 March 31, 2011 and December 31, 2011, 12,000 common shares had been issued to the Eureka Property's owner for the first year's payment and the second through forth years' payments have been made up to date.

Years	Annual Payments
1-10	$ 2,400
11-20	$ 3,600
21-30	$ 4,800
31-40 (10 year option)	$ 6,000
41-Thereafer (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.

Cecchettini Trust

Effective May 20, 2009, the Company entered into a Mineral Lease Agreement with the Cecchettini 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 in a five year mineral exploration lease with the Fancher Trust. The lease covers land adjoining and contiguous with existing Sutter Gold properties and requires annual base lease payments of $140,000 for the life of the lease. The payments have been made and are up to date.

<u>Mexican property</u>

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.

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);

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

Mexican property (continued)

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

On March 29, 2007, the Company signed a letter of intent and on August 7, 2007 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 all 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 $27,000 reclamation bond as at June 30, 2012 and December 31, 2011.

At June 30, 2012 and December 31, 2011, 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, 2012	December, 31, 2011
Accounts payable	$ 322,600	$ 94,600
Salaries and other compensation	220,900	181,600
Deferred rent	12,600	18,100
Accrued property, plant and equipment	602,600	473,800
Accrued expenses	65,100	123,400
	$ 1,223,800	$ 891,500

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 June 30, 2011 and the amount available increased by $3,650,000 to $7,900,000. The Loan Facility bears an interest rate of Libor plus 7.5% per annum, calculated and payable on a monthly basis. The base Libor rate as at June 30, 2012 and December 31, 2011 was 0.24% and 0.28%, respectively. During the three months ended June 30, 2012 and 2011, the Company paid interest of $0 and $14,800, respectively, and during the six months ended June 30, 2012 and 2011, the Company paid interest of $0 and $120,900, respectively, related to the Loan Facility. The loan is secured by substantially all of the assets of the Company and was paid off prior to the due date of July 15, 2011.

9. LOAN FACILITY (CONTINUED)

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 are to be used to repay the existing Loan Facility in the amount of $6.6 million with the residual of the loan being applied to the ongoing cost of the development and construction of the Lincoln Mine project.

The new RMBAH Facility is to be 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, 2012 and December 31, 2011, $20,000,000 and $11,866,900 had been drawn down, respectively.

The Company will deliver to the lender approximately 50% of the project's estimated monthly gold production subject to a minimum of 900 ounces per month beginning at the end of the 13th month from the first month of the draw down. Total gold production deliverable to RMBAH is limited to 53,027 ounces. 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. 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.

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 at June 30, 2012 and December 31, 2011, the Company has recorded cumulative mark to market losses on this debt of $14,838,400 (unaudited) and $7,794,300 (audited), respectively, on the accompanying unaudited condensed interim consolidated statements of financial position. The mark to market losses are the differences between the spot price of repayable gold ounces as at June 30, 2012 and December 31, 2011 and the aggregate of the agreed upfront payment price of $377 per ounce plus the delivery price of $942 per ounce. For the three and six months ended June 30, 2012, the Company recorded mark to market losses of $1,957,500 and $7,044,100, respectively, in the accompanying unaudited condensed interim consolidated statements of loss and comprehensive loss. No mark-to-market losses were recorded during the three and six months ended June 30, 2011 as there was no balance outstanding as of that date.

The current and long-term portion of the RMBAH facility and the mark-to-market losses as at June 30, 2012 and December 31, 2011 are as follows:

	As at June 30, 2012			As at December 31, 2011		
	Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion	Total
RMBAH Facility	$4,127,700	$15,872,300	$20,000,000	$1,186,700	$10,680,200	$11,866,900
Mark-to-market adjustment	3,062,500	11,775,900	$14,838,400	779,400	7,014,900	7,794,300
	$7,190,200	$27,648,200	$34,838,400	$1,966,100	$17,695,100	$19,661,200

10. SHARE CAPITAL AND OTHER EQUITY

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

Series 1 Convertible Redeemable Preference shares are convertible at any time by the holder into common shares of the Company on a one for one basis and are redeemable at any time by the Company at a price of C$1 for each share redeemed. These shares are non-interest bearing. 254,414, shares were issued and outstanding as at June 30, 2012 and December 31, 2011.

There are an unlimited number of no par value common shares authorized. As at June 30, 2012 and December 31, 2011, 117,517,098 shares were issued and outstanding.

10. SHARE CAPITAL AND OTHER EQUITY (CONTINUED)

(b) Warrants

During the six months ended June 30, 2011, 157,000 warrants were exercised at an exercise price of C$0.15 resulting in cash proceeds of $23,400. During the three months ended June 30, 2012 and 2011, the Company recognized gains of $0 and $745,700 in the change in the fair value of the warrants, respectively. During the six months ended June 30, 2012 and 2011, the Company recognized gains of $0 and $934,700 in the change in the fair value of the warrants, respectively. As at June 30, 2012 and December 31, 2011, no warrants were outstanding.

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.

A summary of the status of the Plan as at June 30, 2012 and December 31, 2011, and changes during the periods ended on those dates is presented below.

	Options	Weighted Average Exercise Price C$
Balance outstanding, December 31, 2008	6,025,000	0.23
Options expired/cancelled	(4,110,000)	0.25
Options granted	2,561,000	0.11
Balance outstanding, December 31, 2009	4,476,000	0.15
Options exercised	(1,200,000)	0.11
Options expired/cancelled	(710,000)	0.28
Balance outstanding December 31, 2010	2,566,000	0.15
Options exercised	(74,000)	0.13
Options expired/cancelled	(542,000)	0.32
Options Granted	3,759,000	0.19
Balance outstanding December 31, 2011	5,709,000	0.16
Options Expired	(75,000)	0.22
Options Granted	204,000	0.26
Balance outstanding June 30, 2012	5,838,000	0.17

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

As at June 30, 2012 and December 31, 2011, 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	900,000	$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
December 1, 2009	50,000	$0.13	C	December 1, 2014
May 1, 2011	300,000	$0.19	C	May 1, 2016
June 1, 2011	24,000	$0.18	C	June 1, 2016
July 19, 2011	1,500,000	$0.18	D	July 19, 2016
August 1, 2011	240,000	$0.25	C	August 1, 2016
November 1, 2011	1,500,000	$0.20	B	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
December 31, 2011 Balance	5,709,000			
January 3, 2012	69,000	$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
June 30, 2012 Balance	5,838,000			

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.

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
June 9, 2009	C$0.056	C$0.11	C$0.11	124%	5	-	1.80%
September 7, 2009	C$0.093	C$0.11	C$0.11	124%	5	-	1.80%
September 14, 2009	C$0.093	C$0.11	C$0.11	124%	5	-	1.80%
December 1, 2009	C$0.109	C$0.13	C$0.13	124%	5	-	1.80%
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$0.153	C$0.19	C$0.19	150%	5	-	1.01%
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%

12. 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,	
	2012	**2011**	**2012**	**2011**
Net loss attributable to common shareholders	$ (3,470,400)	$ (220,800)	$ (9,823,900)	$ (902,100)
Weighted average number of common shares in issue	115,219,943	103,728,150	115,219,943	103,728,150
Basic loss per share	$ (0.03)	$ (0.00)	$ (0.09)	$ (0.01)

(b) Diluted

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

13. FINANCIAL RISK MANAGEMENT

(a) Credit risk management

The Company's credit risk is primarily attributable to cash equivalents and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Short-term investments in liquid investments with a maturity greater than three months but less than one year and cash equivalents consist of bankers' acceptances, which 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 liabilities as at June 30, 2012 and December 31, 2011:

	June 30, 2012				
	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 1,223,800	$ 1,223,800	$ 1,223,800	$ -	$ -
Leases payable	$ 67,000	$ 67,000	$ -	$ -	$ 67,000
Note payable	$ 20,000,000	$ 20,000,000	$ 4,127,800	$ 15,872,200	$ -
Reclamation liability	$ 23,300	$ 23,300	$ -	$ -	$ 23,300
Mineral leases	$ -	$ 1,009,600	$ 21,600	$ 677,600	$ 310,400

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	December 31, 2011				
	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 891,500	$ 891,500	$ 891,500	$ -	$ -
Leases payable	$ 67,000	$ 67,000	$ -	$ -	$ 67,000
Note payable	$ 11,866,900	$11,866,900	$ 1,186,700	$ 10,680,200	$ -
Reclamation liability	$ 23,300	$ 23,300	$ -	$ -	$ 23,300
Mineral leases	$ -	$ 314,800	$ 16,000	$ 76,800	$ 222,000

(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 has not presented a sensitivity analysis table of the interest rate risk as at June 30, 2012 and December 31, 2011 as the interest rate risk is not considered material to the Company's financial statements.

(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 does not invest in foreign currency contracts to mitigate the risks. The Company has not presented a sensitivity analysis table of the foreign currency cash balances as at June 30, 2012 and December 31, 2011 as the fluctuation is not material to the Company's financial statements.

(e) Fair value of financial assets and liabilities

The book values of the cash and cash equivalents, amounts receivable, restricted investment and amounts 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 was determined as the being the difference between the spot price of repayable gold ounces as at June 30, 2012 and December 31, 2011 and the aggregate of the agreed upfront payment price of US$377 per ounce plus the delivery price of US$942 per ounce.

The Company's financial instruments carrying amounts and fair values are as follows:

	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	As at June 30, 2012		**As at December 31, 2011**	
Cash and cash equivalents	$ 6,129,300	$ 6,129,300	$ 3,998,500	$ 3,998,500
Note payable and mark-to-market adjustment	$ 34,838,400	$34,838,400	$19,661,200	$19,661,200
Unrecognized (losses)/gains		$ -		$ -

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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, 2012			
	Level I	**Level II**	**Level III**	**Total**
Cash	$ 6,129,300	$ -	$ -	$ 6,129,300
Note payable	20,000,000	-	-	20,000,000
Mark-to-Market Adjustment	-	14,838,400	-	14,838,400
Total	$ 26,129,300	$ 14,838,400	$ -	$ 40,967,700

	As at December 31, 2011			
	Level I	**Level II**	**Level III**	**Total**
Cash	$ 3,998,500	$ -	$ -	$ 3,998,500
Note payable	11,866,900	-	-	11,866,900
Mark-to-Market Adjustment	-	7,794,300	-	7,794,300
Total	$ 15,865,400	$ 7,794,300	$ -	$ 23,659,700

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 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, 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 2012.

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.

During the three months ended June 30, 2012 and 2011, the Company paid interest in the amount of $0 and $14,800, respectively, and during the six months ended June 30, 2012 and 2011, the Company paid interest in the amount of $0 and $120,900, respectively, to RMB Australia Holdings in respect to the Loan Facility as outlined in Note 9.

The remuneration of key management personnel of the Company for the three and six months ended June 30, 2012 and 2011 was as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Short-term employee benefits	$ 242,500	$ 207,900	$ 475,000	$ 341,700
Share based compensation	33,400	20,000	69,400	20,000
	$ 275,900	$ 227,900	$ 544,400	$ 361,700

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.

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, 2012 and December 31, 2011 as there was no present obligation.

17. SUBSEQUENT EVENTS

No events occurred subsequent to June 30, 2012.