SUTTER GOLD MINING INC.

Consolidated Financial Statements

December 31, 2011 and 2010

(Expressed in US Dollars unless otherwise noted)

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Independent Auditor's Report

To the Shareholders of Sutter Gold Mining Inc.

We have audited the accompanying consolidated financial statements of Sutter Gold Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sutter Gold Mining Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company has an accumulated deficit of $46,347,100 as at December 31, 2011 (2010 - $35,923,800). This condition, along with other matters as set forth in Note 2, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte + Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 27, 2012

Membre de / Member of Deloitte Touche Tohmatsu

Sutter Gold Mining Inc.

Consolidated Statements of Financial Position

(Expressed in US Dollars)

	Notes	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Assets			*(Note 18)*	*(Note 18)*
Current assets				
Cash and cash equivalents		$ 3,998,500	$ 458,800	$ 636,600
Accounts receivable		6,100	7,400	13,200
Prepaid expenses		181,200	77,300	16,200
		4,185,800	543,500	666,000
Non-current assets				
Restricted investments	*7*	77,000	77,000	47,000
Property, plant and equipment	*5*	2,699,000	496,600	564,000
		2,776,000	573,600	611,000
Total assets		$ 6,961,800	$ 1,117,100	$ 1,277,000
Liabilities and Shareholders' Deficiency				
Current liabilities				
Accounts payable and accrued liabilities	*8*	$ 891,500	$ 297,600	$ 151,300
Leases payable		67,000	67,000	67,000
Current portion of note payable	*9*	1,966,100	4,947,400	1,889,800
Warrant derivative	*10*	-	1,328,000	267,000
		2,924,600	6,640,000	2,375,100
Non-current liabilities				
Reclamation liability	*7*	23,300	23,300	23,300
Long-term note payable	*9*	17,695,100	-	-
		20,643,000	6,663,300	2,398,400
Shareholders' Deficiency				
Preference shares	*10*	211,200	211,200	211,200
Common Shares	*10*	26,017,900	24,144,300	23,945,500
Equity reserve – stock options		6,436,800	6,022,100	6,012,300
Deficit		(46,347,100)	(35,923,800)	(31,290,400)
Total shareholders' deficiency		(13,681,200)	(5,546,200)	(1,121,400)
Total Liabilities and Shareholders' Deficiency		$ 6,961,800	$ 1,117,100	$ 1,277,000
Commitments	*17*			

See the accompanying notes to the consolidated financial statements.

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

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

Sutter Gold Mining Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in US Dollars)

	Notes	For the year ended December 31, 2011	2010 *(Note 18)*
Revenues			
Lease revenue		$ 19,200	$ 32,100
Wages and benefits		1,072,600	773,300
Mine property holding costs		702,400	317,500
Professional & contract services		423,600	214,900
Office & administrative		384,900	392,000
Share-based payments	*11*	426,000	64,900
Feasibility study		215,400	765,500
Travel & entertainment		122,100	67,800
Rent & electricity		94,900	90,800
Depreciation		79,700	59,300
Exploration		25,400	-
(Gain) loss on sale of assets		(33,000)	94,500
Loss on foreign exchange		1,900	500
		3,515,900	2,841,000
Loss from operations		(3,496,700)	(2,808,900)
Interest income		2,100	800
Interest expense		(431,700)	(655,700)
Loan transaction fees		(32,500)	(108,600)
Other income		1,800	-
Change in fair value of warrant derivative	*10*	1,328,000	(1,061,000)
Mark to market adjustment note payable	*9*	(7,794,300)	-
		(6,926,600)	(1,824,500)
Net loss and comprehensive loss for the period		$(10,423,300)	$(4,633,400)
Net loss per share:			
Basic and diluted loss per share attributable to common shareholders	*12*	$ (0.10)	$ (0.05)
Weighted average number of common shares outstanding		108,992,064	102,859,682

See the accompanying notes to the consolidated financial statements.

Sutter Gold Mining Inc.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in US Dollars)

	Notes	Preferred Shares		Common shares				
		Number of shares	**Amount**	**Number of shares***	**Amount**	**Equity Reserves – Stock Option**	**Deficit**	**Total Shareholders' Deficit**
Balance at January 1, 2010		254,414	$ 211,200	103,872,038	$23,945,500	$6,012,300	$(31,290,400)	$(1,121,400)
Options exercised		-	-	1,200,000	129,700	-	-	129,700
Warrants exercised		-	-	95,454	14,000	-	-	14,000
Fair value of options exercised		-	-	-	55,100	(55,100)	-	64,900
Share-based payments	*11*	-	-	-	-	64,900	-	64,900
Net loss and comprehensive loss		-	-	-	-	-	(4,633,400)	(4,633,400)
Balance at December 31, 2010		254,414	$211,200	105,167,492	$24,144,300	$6,022,100	$(35,923,800)	$(5,546,200)
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		-	-	12,275,606	1,852,500	-	-	1,852,500
Fair value of options exercised		-	-	-	11,300	(11,300)	-	-
Share-based payments	*11*	-	-	-	-	426,000	-	426,000
Net loss and comprehensive loss		-	-	-	-	-	(10,423,300)	(10,423,300)
Balance at December 31, 2011	*10*	254,414	$ 211,200	117,517,098	$26,017,900	$6,436,800	$(46,347,100)	$(13,681,200)

**Included in this amount originally were 1,787,847 of the Company's common shares allotted to the former shareholders of SGMC for tendering their ownership of SGMC, representing 4% of the 44,577,367 common shares at a deemed value of C$0.26 per common share issued on December 29, 2004 on the acquisition of SGMC. As at December 31, 2011: 718,352 (December 31, 2010 - 1,190,935) of these shares remained unallotted.*

See the accompanying notes to the consolidated financial statements.

Sutter Gold Mining Inc.
Consolidated Statements of Cash Flows

(Expressed in US Dollars)

	Notes	For the year ended ended December 31, 2011	2010
Cash flows from operating activities			
Net loss for the period		$ (10,423,300)	$ (4,633,400)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation		79,700	59,300
Amortization of loan fees		185,000	277,500
(Gain) loss on sale of property, plant and equipment		(33,000)	94,500
Share-based payment	*11*	426,000	64,900
Change in warrant derivatives		(1,328,000)	1,061,000
Mark to market adjustment - Note payable		7,794,300	-
Interest expense		431,700	655,700
		(2,867,600)	(2,420,500)
Accounts receivable		1,300	5,800
Prepaid expenses		(103,900)	(61,100)
Accounts payable and accrued liabilities		120,100	146,300
Cash generated from operations		(2,850,100)	(2,329,500)
Interest paid		(431,700)	(655,700)
Net cash used in operating activities		(3,281,800)	(2,985,200)
Cash flows from investing activities			
Purchase of restricted investments		-	(30,000)
Proceeds from the sale of property, plant and equipment		33,000	-
Purchase of property, plant and equipment		(1,808,300)	(86,400)
Net cash used in investing activities		(1,775,300)	(116,600)
Cash flows from financing activities			
Repayment of long-term debt		(6,607,900)	-
Proceeds from long-term debt		13,342,400	2,780,100
Proceeds from the exercise of warrants	*10*	1,852,500	129,700
Proceeds from the exercise of stock options	*11*	9,800	14,000
Net cash provided by financing activities		8,596,800	2,923,800
Net increase (decrease) in cash		3,539,700	(177,800)
Cash and cash equivalents - Beginning of the year		458,800	636,600
Cash and cash equivalents - End of the year		$ 3,998,500	$ 458,800

At December 30, 2011, the Company accrued $473,800 of property, plant and equipment purchases which are included in accounts payable and accrued liabilities on the accompanying consolidated statement of financial position.

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 December 31, 2011, 718,352 (December 31, 2010 - 1,190,935) of these common shares still remain to be allotted to SGMC's shareholders should they elect to tender their shares in the future.

The Company is established to conduct operations on mining leases and to produce gold from the Lincoln Project, a gold mining prospect in the Mother Lode mining district of Amador County, California.

On August 22, 2008, RMB Resources Ltd. ("RMB"), a trustee for the Telluride Investment Trust, completed the acquisition of 39,062,072 common shares of the Company from U.S. Energy Corp. ("USE") for an aggregate purchase price of C$5,400,000. On August 22, 2011 RMB exercised all of its 6,384,700 outstanding warrants. As at December 31, 2011 and 2010 and January 1, 2010, RMB owned 58,216,820 (49.57%), 51,832,100 (49.30%), and 51,832,120 (49.90%), respectively, of the outstanding common shares of the Company.

2. BASIS OF PRESENTATION - GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

The Company has generated significant losses since its inception which has resulted in an accumulated deficit of $46,347,100 and $35,923,800 as at December 31, 2011 and 2010, 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 working capital as at December 31, 2011 of $1,261,200 compared to a working capital deficiency as at December 31, 2010 of $6,096,500. These financial statements do not reflect adjustments to the carrying values of assets and liabilities which may be required should the Company be unable to raise adequate financing or meet current obligations and therefore be unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) First-time adoption of IFRS and statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1"). Subject to certain transition elections disclosed below, the Company has consistently applied the same accounting policies in the

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(a) First-time adoption of IFRS and statement of compliance (continued)

opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company's reported consolidated statements of financial position, loss and comprehensive loss, including the nature and effect of significant changes in accounting policies from those used in the financial statements for the year ended December 31, 2010 as previously filed.

The policies applied in these consolidated financial statements are presented in Note 3 and are based on IFRS issued and outstanding as of March 27, 2012, the date the Board of Directors approved the financial statements.

(b) Basis of preparation

These consolidated financial statements are presented in US dollars unless otherwise noted. These 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 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) Accounting standards and interpretations issued but not yet effective

IFRS 7, *Financial Instruments - Disclosures* ("IFRS 7"), was amended by the IASB in October 2010 and December 2011. It provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, for financial assets that are derecognized in their entirety but for which continuing involvement is retained, and for disclosure about offsetting financial assets and financial liabilities. These amendments to IFRS 7 are effective for various annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 9, *Financial Instruments: Classification and Measurement*, issued in December 2009 and amended in October 2010. On August 4, 2011, the IASB issued an exposure draft to defer the mandatory effective date from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. Early adoption would continue to be permitted. This is the first part of a new standard on the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2015 and has not yet considered the potential impact of the adoption of IFRS 9. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements, issued in May 2011, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(d) Accounting standards and interpretations effective in the current period (continued)

IFRS 11, Joint Arrangements, issued in May 2011, provides guidance on how to account for interests in jointly arrangements. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. This pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities, issued in May 2011, provides disclosure guidance on interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 13, Fair Value Measurement, issued in May 2011, defines fair value and sets out in a single framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.* This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements, issued in June 2011, requires the grouping of items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. Retrospective application is required, and the standard is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the amended standard will have on its financial statements or whether to early adopt any of the new requirements.

IAS 27 Separate Financial Statements & IAS 28 Investments in Associates and Joint Ventures were issued in May 2011. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13. These standards are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

(e) Share-based payment

The Company has in effect a share option plan ("the Plan"), which allows Company employees, directors and officers to acquire shares of the Company. The Company recognizes employee compensation expense with a corresponding increase in equity based upon the fair value of the options outstanding at the statement of financial position date for options granted to employees of the Company. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(f) 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.

(g) Revenue recognition

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

(h) 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

(i) 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 December 31, 2011, 2010 and January 1, 2010, there are no mineral costs capitalized.

(j) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(j) Exploration and evaluation (continued)

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 December 31, 2011, 2010 and January 1, 2010, there are no mineral costs capitalized.

(k) 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 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.

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.

(l) 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 corporations' 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(m) Financial assets and liabilities

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

These 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.

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 December 31, 2011 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 amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(m) Financial assets and liabilities (continued)

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.

(n) 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.

(o) 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 December 31, 2011 and 2010, the Company does not have any asset retirement obligations other than reclamation liabilities as accrued.

(p) 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.

(q) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

(r) Interest income

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

(s) 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.

(t) 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.

(u) 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.

(v) 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 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 reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

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 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 estimated useful lives and recoverability of property, plant and equipment which are included in the consolidated statement of financial position and the related depreciation included in the consolidated statement of comprehensive loss for the year ended December 31, 2011;
ii. the risk free interest rate, expected volatility and expected life inputs used in accounting for share purchase option expense and fair value of share purchase warrants in the consolidated statement of loss and comprehensive loss; and
iii. the nil provision for income taxes which is included in the consolidated statement of loss and comprehensive loss and the composition of deferred income tax assets and liabilities included in the consolidated statement of financial position at December 31, 2011.

5. PROPERTY, PLANT AND EQUIPMENT

	Land Improvements	Buildings	Equipment and Vehicles	Project Labor	Total
Cost					
Balance at January 1, 2010	$175,100	$301,800	$646,700	$ -	$1,123,600
Additions	-	41,900	44,500	-	86,400
Disposals	-	-	-	-	-
Allocation of impairment charges	-	-	71,900	-	71,900
Balance at December 31, 2010	175,100	343,700	763,100	-	1,281,900
Balance at January 1, 2011	175,100	343,700	763,100	-	1,281,900
Additions	562,400	135,400	824,500	759,800	2,282,100
Balance at December 31, 2011	$737,500	$479,100	$1,587,600	$ 759,800	$3,564,000

	Land Improvements	Buildings	Equipment and Vehicles	Project Labor	Total
Depreciation					
Balance at January 1, 2010	$ 6,300	$ 218,100	$ 335,200	$ -	$559,600
Additions	-	2,500	56,800	-	59,300
Disposals	-	-	-	-	-
Loss on disposal	-	-	94,500	-	94,500
Allocation of impairment charges	-	-	71,900	-	71,900
Balance at December 31, 2010	6,300	220,600	558,400	-	785,300
Balance at January 1, 2011	6,300	220,600	558,400	-	785,300
Additions	5,300	3,800	70,600	-	79,700
Balance at December 31, 2011	$ 11,600	$ 224,400	$ 629,000	$ -	$ 865,000

	Land Improvements	Buildings	Equipment and Vehicles	Project Labor	Total
Carrying amounts					
At January 1, 2010	$ 168,800	$ 83,700	$ 311,500	$ -	$ 564,000
At December 31, 2010	$ 168,800	$ 123.100	$ 204,700	$ -	$ 496,600
At December 31, 2011	$ 725,900	$ 254,700	$ 958,600	$ 759,800	$ 2,699,000

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-Thereafer (annual option)	$ 4,800	$ 9,600

Eureka Property

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land immediately adjacent to the Company's properties in California, called the Eureka Property. The lease term is 30 years, broken down into ten years segment carrying a 4% production royalty or a minimum annual payment. As of December 31, 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.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

Mexican property

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

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

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

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

On March 29, 2007, the Company signed a letter of intent and on August 7, 2007 a Joint Venture Agreement with Premier Gold Mines Ltd. ("Premier") to jointly explore the Company's Santa Teresa mineral concession. Premier is to earn an initial 50% interest in the project by issuing 100,000 common shares (received) to the Company, completing $1.5 million in exploration and acquisition within two years and reimbursing the Company for all option payments due to the vendor (total of C$280,000; The Company has been reimbursed for payments made February 7, 2008 through February 7, 2010. Premier can earn an additional 15% interest in the property (to a 65% interest) by paying a further $500,000 to the Company, payable in cash or shares, and conducting an additional $4,000,000 in exploration on the property.

7. RESTRICTED INVESTMENTS

Future reclamation and mine closure costs will be the responsibility of the Company and are based on legal and regulatory requirements. The laws and regulations are continually changing and are generally becoming more restrictive. The Company believes it is in compliance with applicable laws and regulations and expects to make future expenditures to comply with these laws and regulations. Current estimated reclamation liability of $23,300 is secured by a $27,000 reclamation bond as at December 31, 2011, December 31, 2010 and January 1, 2010.

At December 31, 2011 and 2010, the Company also has two Certificates of Deposit held with US Bank totaling $50,000 as collateral for the Company's credit cards. At January 1, 2010, the Company had two Certificates of Deposit held with US Bank totaling $20,000 as collateral for the Company's credit cards

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December, 31, 2011	December, 31, 2010	January 1, 2010
Accounts payable	$ 94,600	$ 25,700	$ 57,200
Salaries and other compensation	181,600	78,500	24,000
Deferred rent	18,100	32,300	-
Accrued property, plant and equipment	473,800	-	-
Accrued expenses	123,400	161,100	70,100
	$ 891,500	$ 297,600	$ 151,300

9. LOAN FACILITY

On August 12, 2009, the Company entered into a short-term loan facility agreement ("Loan Facility") with RMB Australia Holdings Limited. RMB Australia Holdings Limited 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 both extended and the amount available increased. The Loan Facility was increased in the amount of $3,650,000. The amount under the amended Loan Facility totals $7,900,000 with an extended maturity date to June 30, 2011. An extension fee for the original Loan Facility of $106,250 was paid in 2010. An additional 7.5% fee on the increase to the Loan Facility of $273,750 was paid in 2010.

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 December 31, 2011 and 2010 was 0.28% and 0.26%, respectively. During the years ended December 31, 2011 and 2010, the Company paid interest of $246,700 and $278,200, respectively, related to the Loan Facility.

The loan is secured by substantially all of the assets of the Company. The maturity date of June 30, 2011 was extended to July 15, 2011. The Company paid the loan in full prior to the extended due date.

In June, 2011, the Company entered into an agreement with RMB Australia Holdings Limited ("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 RMBAH 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 RMBAH facility is to be drawn down by the Company during the construction and development of the project. The Company commenced drawing down the loan in July, 2011 and inclusive of the repayment of existing Loan Facility, as at December 31, 2011 $11,866,900 had been drawn down.

The Company will deliver to the lender approximately 50% of the project's estimated monthly gold production subject to a minimum of 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.

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 has recorded a mark to market loss on this debt of US$7,794,300 being the difference between the spot price of repayable gold ounces as at December 31, 2011 and the aggregate of the agreed upfront payment price of $377 per ounce plus the delivery price of $942 per ounce.

10. SHARE CAPITAL AND OTHER EQUITY

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

Common shares, no par value, authorized an unlimited number of shares, issued and outstanding were 117,517,098 and 105,167,492 shares as at December 31, 2011and 2010, respectively.

Series 1 Convertible Redeemable Preference shares are convertible at any time by the holder into common shares of the Company on a one for one basis and are redeemable at any time by the Company at a price of C$1 for each share redeemed. These shares are non-interest bearing. Issued and outstanding were 254,414 shares as at December 31, 2011 and 2010.

10. SHARE CAPITAL AND OTHER EQUITY (CONTINUED)

(b) Warrants

During the year ended December 31, 2011, 12,275,606 warrants were exercised at an exercise price of C$0.15 on or before the expiration date of August 22, 2011 and 423,934 warrants expired. As a result, the Company received cash of $1,852,500 and recognized a gain of $1,328,000 on the change in warrant derivative. As at December 31, 2011 no warrants were outstanding and as at December 31, 2010, 12,699,540 warrants were outstanding, at an exercise price of C$0.15.

During the year ended December 31, 2010, 95,454 warrants were exercised at an exercise price of C$0.15. As a result of this exercise, the Company received cash of $14,000.

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 December 31, 2011 and 2010, 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

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

As at 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
February 16, 2011	75,000	0.22	C	February 16, 2016
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, 2011
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
	5,709,000			

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	$0.056	$0.11	$0.11	124%	5	-	1.80%
September 7, 2009	$0.093	$0.11	$0.11	124%	5	-	1.80%
September 14, 2009	$0.093	$0.11	$0.11	124%	5	-	1.80%
December 1, 2009	$0.109	$0.13	$0.13	124%	5	-	1.80%
February 16, 2011	$0.190	$0.22	$0.22	172%	5	-	2.27%
May 1, 2011	$0.164	$0.19	$0.19	172%	5	-	2.01%
June 1, 2011	$0.155	$0.18	$0.18	171%	5	-	1.73%
July 19, 2011	$0.151	$0.18	$0.18	172%	5	-	1.64%
August 1, 2011	$0.201	$0.25	$0.25	178%	5	-	1.55%
November 1, 2011	$0.149	$0.20	$0.20	162%	5	-	1.09%
November 11, 2011	$0.177	$0.20	$0.20	161%	5	-	1.09%
December 21, 2011	$0.179	$0.19	$0.19	124%	5	-	1.85%

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 year.

	December 31,	
	2011	**2010**
Net loss attributable to common shareholders	$ (10,423,300)	$ (4,633,400)
Weighted average number of common shares in issue	108,992,064	102,859,682
Basic (loss) per share	$ (0.10)	$ (0.05)

(b) Diluted

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

13. INCOME TAXES

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

	Year ended December 31,	
	2011	**2010**
Income (loss) before income taxes	$ 10,423,300	$ 4,633,400
Effective Statutory Rate	29.86%	39.42%
Expected tax recovery	(3,112,400)	(1,826,500)
Increase (decrease) due to:		
Permanent differences	109,000	47,900
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	3,955,400	1,778,600
Effect on deferred tax balances due to change in income tax rate from 26.5% to 25%	103,700	-
Effect of foreign exchange differences on deferred tax balances	76,100	-
Adjustments recognized in the current year in relation to the current tax in prior years	(1,180,800)	-
Other	49,000	-
Tax expense (recovery)	$ -	$ -

The tax rate used for the 2011 and 2010 reconciliations above is based on the aggregate of separate reconciliations for the Canadian and United States reconciliations. In Canada, the tax rate is 26.5% (2010-28.5%) and in the United States, the tax rate is 38.19% (2010-42.84%).

13. INCOME TAXES (CONTINUED)

The following are the deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	December 31, 2011	December 31, 2010
Deferred income Tax Assets		
Non-capital losses/non-operating losses	$ 332,000	$ 345,400
Deferred income Tax Liabilities		
Mineral property costs	-	(345,400)
Change in fair value of Warrant derivative	(332,000)	-
	$ -	$ -

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

	December 31, 2011	December 31, 2010
Non-capital losses/Non-operating losses	$ 23,410,100	$ 20,361,700
Capital losses	4,406,000	-
Financing costs	295,800	-
Property, plant and equipment	812,900	485,200
Mark to marker adjustments	7,794,300	-
	$ 36,719,400	$ 20,846,900

Unrecognized non-capital losses and non-operating losses are available to reduce taxable income in Canada and the United States and expire in stages through 2031 as follows:

	Canada	United States	Total
2016	$ -	$ 789,000	$ 789,000
2017	-	1,593,000	1,593,000
2018	-	1,836,000	1,836,000
2019	-	1,496,000	1,496,000
2020	-	603,000	603,000
2021	-	265,000	265,000
2023	-	526,000	526,000
2024	-	559,000	559,000
2025	-	883,000	883,000
2026	-	1,571,000	1,571,000
2027	-	1,002,000	1,002,000
2028	175,100	1,494,000	1,669,100
2029	1,129,000	2,879,000	4,008,000
2030	391,000	2,649,000	3,040,000
2031	728,000	2,842,000	3,570,000
	$ 2,423,100	$ 20,987,000	$ 23,410,100

14. 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 December 31, 2011, December 31, 2010 and January 1, 2010:

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

December 31, 2010

	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 297,600	$ 297,600	$ 297,600	$ -	$ -
Leases payable	$ 67,000	$ 67,000	$ -	$ -	$ 67,000
Note payable	$ 4,947,400	$ 4,947,400	$ -	$ -	$ -
Reclamation liability	$ 23,300	$ 23,300			$ 23,300
Mineral leases	$ -	$ 330,800	$ 16,000	$ 77,000	$ 237,800

January 1, 2010

	Carrying Amount	Contractual cash flows	1 year or less	2-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 151,300	$ 297,600	$ 297,600	$ -	$ -
Leases payable	$ 67,000	$ 67,000	$ -	$ -	$ 67,000
Note payable	$ 1,889,800	$ 1,889,800	$ -	$ -	$ -
Reclamation liability	$ 23,300	$ 23,300			$ 23,300
Mineral leases	$ -	$ 346,800	$ 16,000	$ 77,200	$ 253,600

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity. The Company has not presented a sensitivity analysis table as the interest rate risk as at December 31, 2011 and 2010 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 as the foreign currency cash balances as at December 31, 2011 and 2010 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 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 fair value of the warrant derivative was determined using the Black-Scholes pricing model.

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

	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
Cash and cash equivalents	$ 3,998,500	$ 3,998,500	$ 458,800	$ 458,800	$ 636,600	$ 636,600
Note payable and mark-to-market adjustment	19,661,200	19,661,200	4,947,400	4,947,400	1,889,800	1,889,800
Warrant derivative	-	-	1,328,000	1,328,000	267,000	267,000
Unrecognized (losses)/gains		$ -		$ -		$ -

14. 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 consolidated balance sheet are valued:

- Level I - measurement based on quoted prices (unadjusted) observed in active market for identical assets or liabilities;
- Level II - measurement based on inputs other than quoted prices included in Level I that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level III - measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

	As at December 31, 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
Warrant derivative	-	-	-	-
Total	$ 15,865,400	$ 7,794,300	$ -	$ 23,659,700

	As at December 31, 2010			
	Level I	Level II	Level III	Total
Cash	$ 458,800	$ -	$ -	$ 458,800
Note payable	4,947,400	-	-	4,947,500
Mark-to-Market Adjustment	-	-	-	-
Warrant derivative	-	-	1,328,000	1,328,000
Total	$ 5,406,200	$ -	$ 1,328,000	$ 6,734,300

	As at January 1, 2010			
	Level I	Level II	Level III	Total
Cash	$ 636,600	$ -	$ -	$ 636,600
Note payable	1,889,800	-	-	1,889,800
Mark-to-Market Adjustment	-	-	-	-
Warrant derivative	-	-	267,000	267,000
Total	$ 2,526,400	$ -	$ 267,000	$ 2,793,400

The reconciliation of Level III warrant derivative is as follows:

Beginning balance as at January 1, 2009	$ -
Conversion of warrant from equity to liability under IFRS	712,500
Change in fair value	(445,500)
Balance as at January 1, 2010	267,000
Change in fair value	1,061,000
Balance as at December 31, 2010	1,328,000
Settlement due to exercise of warrants	(1,328,000)
Balance as at December 31, 2011	$ -

15. 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.

16. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

During the years ended December 31, 2011 and 2010, the Company paid interest in the amount of $246,700 and $278,200, respectively, to RMB Australia Holdings in respect to the Loan Facility as outlined in Note 9. In addition, the Company paid loan transaction financing fees in the amount of $382,400 in 2010 in respect to setting up the extension of Loan Facility agreement in 2010.

The remuneration of key management personnel of the Company for the year ended December 31, 2011 and 2010 was as follows:

	2011	2010
Short-term employee benefits	$ 641,400	$ 602,300
Share based compensation	228,200	32,200
	$ 869,600	$ 634,500

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.

17. COMMITMENTS

On May 3, 2007, the Company settled a Contingent Stock Purchase Warrant liability with U.S. Energy Corp. by the issuance of a Net Profits Interest royalty ("NPIR") of 5% until an amount of $4.6 million is repaid, and granting a 1% NPIR thereafter. NPIR is defined as the price received from the sale of gold or other mineralized product that is mined, saved and sold, less mining, milling, processing or refining and transportation costs and allowable taxes and royalties. No amounts have been accrued as a liability as at December 31, 2011, December 31, 2010, or January 1, 2010 as there was no present obligation.

18. TRANSITION TO IFRS

As stated in Significant Accounting Policies note 3(a), these are the Company's first consolidated financial statements prepared in accordance with IFRS (International Financial Reporting Standards) as issued by the International Accounting Standards Board ("IASB").

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for year ended December 31, 2010, and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 *First-time adoption of IFRS*, in preparing its transitional consolidated financial statements.

IFRS Exemptions and Exceptions

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position as at January 1, 2010, the Company's "Transition Date":

- Business Combinations - IFRS 1 permits a first-time adopter to elect not to apply IFRS 3, Business Combinations, to business combinations that occurred prior to the date of transition to IFRS. A first time adopter can also elect to choose a date prior to the date of transition and apply IFRS 3 to all subsequent business combinations. The Company has elected to apply IFRS 3 prospectively to business combinations completed on or after January 1, 2010, the date of transition to IFRS. No change has been made to the business combinations completed prior to that date.

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.

- Property, plant and equipment - IFRS 1 provides a one-time choice of measuring property, plant and equipment at its fair value as deemed cost at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. For the purpose of subsequent measurement, the Company has elected to apply the cost model for property, plant & equipment rather than the fair value model available under IFRS.

18. TRANSITION TO IFRS (CONTINUED)

Mandatory exceptions to retrospective application

Estimates: Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the company under Canadian GAAP are consistent with their application under IFRS.
Other IFRS-1 exemptions and mandatory exceptions have not been discussed above as they are not applicable to the Company.

18. TRANSITION TO IFRS (CONTINUED)

Reconciliation of equity:

	Notes	January 1, 2010			December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets							
Current assets							
Cash and cash equivalents		$ 636,600	$ -	$ 636,600	$ 458,800	$ -	$ 458,800
Accounts receivable		13,200	-	13,200	7,400	-	7,400
Prepaid expenses		16,200	-	16,200	77,300	-	77,300
		666,000	-	666,000	543,500	-	543,500
Reclemation bond		47,000	-	47,000	77,000	-	77,000
Mineral properties	*(a)*	806,300	(806,300)	-	806,300	(806,300)	-
Property and equipment		564,000	-	564,000	496,600	-	496,600
Total assets		$ 2,083,300	$ (806,300)	$ 1,277,000	$ 1,923,400	$(806,300)	$ 1,117,100
Liabilities and Shareholders' Equity							
Current liabilities							
Accounts payable and accrued liabilities		$ 151,300	$ -	$ 151,300	$ 297,600	$ -	$ 297,600
Leases payable		67,000	-	67,000	67,000	-	67,000
Current portion of note payable	*(b)*	2,178,600	(288,800)	1,889,800	5,132,400	(185,000)	4,947,400
Warrant derivative	*(c)*	-	267,000	267,000	-	1,328,000	1,328,000
		2,396,900	(21,800)	2,375,100	5,497,000	1,143,000	6,640,000
Non-current liabilities							
Reclamation liability		23,300	-	23,300	23,300	-	23,300
		2,420,200	(21,800)	2,398,400	5,520,300	1,143,000	6,663,300
Shareholders' Deficiency							
Common shares		23,945,500	-	23,945,500	24,144,300	-	24,144,300
Preference shares		211,200	-	211,200	211,200	-	211,200
Equity reserve – stock options	*(c)*	6,724,800	(712,500)	6,012,300	6,734,600	(712,500)	6,022,100
Deficit	*(a),(b)&(c)*	(31,218,400)	(72,000)	(31,290,400)	(34,687,000)	(1,236,800)	(35,923,800)
Total shareholders' deficiency		(336,900)	(784,500)	(1,121,400)	(3,596,900)	(1,949,300)	(5,546,200)
Total liabilities and shareholders' deficiency		$ 2,083,300	$ (806,300)	$ 1,277,000	$ 1,923,400	$ (806,300)	$ 1,117,100

18. TRANSITION TO IFRS (CONTINUED)

Reconciliation of loss and comprehensive loss for the year ended December 31, 2010:

		December 31, 2010		
			Effect of	
		Canadian	**Transition**	
	Notes	**GAAP**	**to IFRS**	**IFRS**
Lease revenue		32,100	-	32,100
Cost of tourism operations		900	-	900
Depreciation		59,300	-	59,300
Mine property holding costs		309,500	-	309,500
Office & miscellaneous		324,200	-	324,200
Feasibility study		765,500	-	765,500
Professional & contract services		290,700	-	290,700
Rent & electricity		90,800	-	90,800
Stock-based compensation		64,900	-	64,900
Travel & entertainment		66,900	-	66,900
Wages & benefits		773,200	-	773,300
		2,745,900	-	2,746,000
Loss from operations		(2,713,800)	-	(2,713,900)
Loss on retirement of assets		(94,500)	-	(94,500)
Gain (loss) on foreign exchange		(500)	-	(500)
Interest income		800	-	800
Interest expense	***(b)***	(278,200)	(377,500)	(655,700)
Loan transaction fees	***(b)***	(382,400)	273,800	(108,600)
Change in fair value of warrant derivative	***(c)***	-	(1,061,000)	(1,061,000)
		(754,800)	(1,164,700)	(1,919,500)
Net loss and comprehensive loss for the period		(3,468,600)	(1,164,700)	(4,633,400)
Net loss per share:				
Basic and diluted loss per share attributable to common shareholders		(0.03)		(0.05)
Weighted average number of common				
shares outstanding		102,859,682		102,859,682

18. TRANSITION TO IFRS (CONTINUED)

Notes to the reconciliation of equity and net loss and comprehensive loss:

a) Deferred mineral exploration costs

Historically, the Company has recorded its interests in mineral exploration properties at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

IFRS 6 Exploration and Evaluation of Mineral Resources permits mining companies to retain their existing policies with respect to the capitalization of exploration and evaluation costs. Under Canadian GAAP all mineral resource properties are carried at cost. Under Canadian GAAP, the Company considers exploration and development costs and expenditures to have the characteristics of property, plant and equipment and, as such, the Company capitalizes all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties as incurred, until those properties are determined to be economically viable for mineral production. After the determination of economic feasibility and at the commencement of pre-production activities these deferred exploration costs were transferred to mining properties and amortized through charges against income derived from mining operations. Under IFRS, the Company has a choice between retaining its prior policies with respect to mineral properties and deferred exploration costs or electing to change its policy retrospectively to expense all pre-feasibility costs.

The Company has decided to change its accounting policy to retrospectively expense all pre-feasibility exploration and evaluation costs.

The effects of this transitional change are as follows: Decrease deferred exploration assets of $806,300 and increase deficit by the same amount as at January 1 and December 31, 2010.

b) Loan facility - Transaction costs

On August 12, 2009 the Company entered into a short term loan facility agreement (the “Loan Facility”). The Loan Facility is denominated in US dollars and has a limit of $4,250,000. Transaction fees in the amount of $385,000 were expensed during the period.

IFRS: IAS 39 does not allow a choice of accounting policy for transaction costs – they must be recognized as part of the financial liabilities. Canadian GAAP: Permits a choice.

The Company has reviewed the IAS 39 methodology and has recorded the following adjustments:

January 1, 2010 - Note payable is reduced by $288,800 with a corresponding reduction of deficit;

December 31, 2010 - Note payable is reduced by $185,000 with an increase in interest expenses of $377,500.

c) Share purchase warrants denominated in Canadian dollars

On August 22, 2008, the Company completed a non-brokered private placement of 25,589,993 units at a price of C$0.11 for proceeds of $2,668,200 (C$2,814,900). Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of C$0.15 per share until August 22, 2010. The fair value of $712,400 was assigned to these warrants using Black-Scholes model.

IFRS: Under IFRS, The exercise price of the warrants is fixed in Canadian dollars. The functional currency of the Company is in U.S. dollars and therefore the conversion option is considered a derivative as the Company will receive a variable amount of cash when the warrants are exercised. As a result, the warrants meet the definition of a derivative liability under IAS 39 ‘Financial Instruments: Recognition and Measurement’ and is recorded as a financial liability and stated at fair

18. TRANSITION TO IFRS (CONTINUED)

c) Share purchase warrants denominated in Canadian dollars (continued)

value at each date of the statement of financial position. Canadian GAAP: Under Canadian GAAP – The warrants were accounted for at carrying value as equity.

The effects of this change are as follows:

January 1, 2010 - Increase warrant derivative liability by $267,000, decrease contributed surplus by $712,500 and decrease deficit by $445,500;

December 31, 2010 - Increase warrant derivative liability and increase net loss by $1,061,000.

d) Impact on deficit

The effect of the above adjustments on deficit is as follows:

	Notes	January 1, 2010	December 1, 2010
Canadian GAAP		(31,218,400)	(34,687,000)
IFRS Adjustments			
Financing costs	*(b)*	385,000	273,700
Change in warrant derivative	*(c)*	445,500	(1,061,000)
Interest expense (amortization of financing costs)	*(b)*	(96,200)	(377,500)
Mineral costs written off	*(a)*	(806,300)	-
Cumulative adjustment from January 1, 2010		-	(72,000)
IFRS		(31,290,400)	(35,923,800)

19. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2011:

On January 4, 2012, the Company began trading on OTCQX, the top tier on the US Over-the-Counter (“OTC”) market under the symbol SGMNF.

On January 18, the Company commenced drilling of the first phase of an exploration drilling program at its Lincoln Project at Sutter Creek, California.