SUTTER GOLD MINING INC.

Condensed Consolidated Interim Financial Statements

September 30, 2011 and 2010

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED

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 consolidated interim financial statements of the Company have been prepared by, and are the responsibility of the management of Sutter Gold Mining Inc.

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

Sutter Gold Mining Inc.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in US Dollars)
(Unaudited)

	Notes	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
			(Note 17)	*(Note 17)*
Assets				
Current assets				
Cash and cash equivalents		$ 4,513,000	$ 458,800	$ 636,600
Accounts receivable		13,800	7,400	13,200
Prepaid expenses		303,500	77,300	16,200
		4,830,300	543,500	666,000
Non-current assets				
Restricted investments	7	77,000	77,000	47,000
Property, plant and equipment	5	1,547,100	496,600	564,000
		1,624,100	573,600	611,000
Total assets		$ 6,454,400	$ 1,117,100	$ 1,277,000
Liabilities and Shareholders' Deficiency				
Current liabilities				
Accounts payable		$ 552,400	$ 297,600	$ 151,300
Leases payable		67,000	67,000	67,000
Note payable	8	-	4,947,400	1,889,800
Warrant derivative		-	1,328,000	267,000
		619,400	6,640,000	2,375,100
Non-current liabilities				
Reclamation liability	7	23,300	23,300	23,300
Mark to market adjustment – RMB facility		8,573,300	-	-
RMB gold facility		10,716,900	-	-
		19,313,500	6,663,300	2,398,400
Shareholders' Deficiency				
Common Shares	9	26,018,000	24,144,300	23,945,500
Preference shares	9	211,200	211,200	211,200
Equity reserve		6,134,700	6,022,100	6,012,300
Deficit		(45,842,400)	(35,923,800)	(31,290,400)
Total deficiency		(13,478,500)	(5,546,200)	(1,121,400)
Total liabilities and deficiency		$ 6,454,400	$ 1,117,100	$ 1,277,000

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

These consolidated condensed interim financial statements are authorized for issue by the Board of Directors on November 21, 2011. They are signed on the Company's behalf by:

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

Sutter Gold Mining Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in US Dollars)
(Unaudited)

	Notes	For the three months ended September 30, 2011	2010 (Note 17)	For the nine months ended September 30, 2011	2010 (Note 17)
Revenues					
Lease revenue		$ 6,600	$ 14,300	$ 18,200	$ 27,100
Depreciation and amortization		20,300	13,600	51,900	45,700
Feasibility study		11,200	140,400	180,000	590,200
Mine property holding costs		182,500	63,100	498,000	246,400
Office & administrative		79,100	94,300	220,100	246,700
Professional & contract services		119,000	69,000	281,200	206,100
Rent & electricity		27,600	24,200	76,300	64,000
Share-based payments	*10*	95,800	11,900	124,000	62,800
Travel & entertainment		20,500	13,600	88,700	43,500
Wages & benefits		235,900	230,200	739,500	574,700
		791,900	660,300	2,259,700	2,080,100
Loss from operations		(785,300)	(646,000)	(2,241,500)	(2,053,000)
Other income		-	-	700	-
Gain on sale of assets		-	-	31,900	-
Gain on foreign exchange		700	300	(900)	(700)
Interest income		500	200	900	600
Interest expense		(19,700)	(170,900)	(431,700)	(467,900)
Loan transaction fees		(32,600)	(108,600)	(32,600)	(108,600)
Change in fair value of warrant derivative	*17*	393,200	(448,000)	1,327,900	(217,100)
Mark to market adjustment RMB facility	*8*	(8,573,300)	-	(8,573,300)	-
		(8,231,200)	(727,000)	(7,677,100)	(793,700)
Net loss and comprehensive loss for the period		(9,016,500)	(1,373,000)	(9,918,600)	(2,846,700)
Net loss per share:					
Basic and diluted loss per share attributable to common shareholders	*11*	$ (0.09)	$ (0.01)	$ (0.09)	$ (0.03)
Weighted average number of common shares outstanding		105,675,352	102,597,439	105,675,352	102,597,439

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

Sutter Gold Mining Inc.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in US Dollars)

(Unaudited)

	Notes	Preferred Shares: Number of shares	Preferred Shares: Amount	Common shares: Number of shares*	Common shares: Amount	Equity Reserves	Deficit	Total deficiency
Balance at January 1, 2010		254,414	$ 211,200	103,872,073	$23,945,500	$6,012,300	$(31,290,400)	$(1,121,400)
Share-based payments	*10*	-	-	-	-	62,800	-	62,800
Net loss		-	-	-	-	-	(2,846,700)	(2,846700)
Balance at September 30, 2010		254,414	$211,200	103,872,073	$23,945,500	$6,075,100	$(34,137,100)	$(3,905,300)
Balance at January 1, 2011	*9*	254,414	$ 211,200	105,167,492	$24,144,300	$6,022,100	$(35,923,800)	$(5,546,200)
Options exercised		-	-	74,000	9,800	-	-	9,800
Warrants exercised		-	-	12,275,606	1,852,500	-	-	1,852,500
Fair value of options exercised		-	-	-	11,400	(11,400)	-	-
Share-based payments	*10*	-	-	-	-	124,000	-	124,000
Net loss		-	-	-	-	-	(9,918,600)	(9,918,600)
Balance at September 30, 2011	*9*	254,414	$ 211,200	117,517,098	$26,018,000	$6,134,700	$(45,842,400)	$(13,478,500)

**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 September 30, 2011: 718,352 (December 31, 2010 - 1,190,935) of these shares remained unallotted.*

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

Sutter Gold Mining Inc.
Consolidated Interim Statements of Cash Flows

(Expressed in US Dollars)
(Unaudited)

	Notes	For the nine months ended ended September 30, 2011	2010
Cash flows from operating activities			
Net loss for the period		$ (9,918,600)	$ (2,846,700)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation		51,900	45,700
Share-based payment		124,000	62,800
Change in warrant derivatives		(1,328,000)	217,000
Mark to market adjustment RMB loan		8,573,300	-
Net changes in components of working capital:			
Accounts receivable		(6,400)	600
Prepaid expenses		(226,200)	(22,900)
Accounts payable		254,800	101,600
Note payable loan fees		185,000	277,500
		(2,290,200)	(2,164,400)
Cash flows from investing activities			
Purchase of properties and equipment		(1,102,400)	(68,600)
		(1,102,400)	(68,600)
Cash flows from financing activities			
Repayment of long term debt		(6,607,900)	-
Proceeds from promissory notes		12,192,400	2,202,400
Proceeds from issuance of common stock – warrants		1,852,000	
Proceeds from issuance of common stock - options		10,300	-
		7,446,800	2,202400
Net increase (decrease) in cash		(4,054,200)	(30,600)
Cash and cash equivalents - Beginning of the period		458,800	636,600
Cash and cash equivalents - End of the period		$ 4,513,000	$ 606,000

See the accompanying notes to the unaudited condensed consolidated interim 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 exchange.

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 September 30, 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 of September 30, 2011, RMB owned 58,216,820 (49.57%) of the outstanding common shares of the Company.

2. BASIS OF PRESENTATION - GOING CONCERN

These condensed consolidated interim 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 $45,842,400 as of September 30, 2011 (December 31, 2010 - $35,923,800). 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. 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 as at September 30, 2011 of $4,210,900 (working capital deficiency as of December 31, 2010 - $6,046,400) 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 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 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34") and 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 opening IFRS balance sheet as at

January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 15 discloses the impact of the transition to IFRS on the Company's reported statement of financial position, comprehensive income and cash flows, 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.

The policies applied in these condensed consolidated interim financial statements are presented in Note 3 and are based on IFRS issued and outstanding as of November 17, 2011, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed consolidated interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 17 discloses IFRS information for the year ended December 31, 2010 that is material to the understanding of these condensed consolidated interim financial statements.

(b) Basis of preparation

These condensed consolidated interim financial statements are presented in US dollars unless otherwise noted. These condensed consolidated interim financial statements are prepared on the historical cost basis.

(c) Principles of consolidation

These condensed consolidated interim 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 material intercompany profits, transactions and balances have been eliminated.

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

IFRS 7, *Financial Instruments - Disclosures* ("IFRS 7"), was amended by the IASB in October 2010 and 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, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for 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, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for 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, 2013 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 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 application permitted. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 11, Joint Arrangements, this new standard provides guidance on how to account for interests in jointly controlled entities. This standard is effective for annual periods beginning on or after January1, 2013. Earlier application is permitted. This pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 12 Disclosure of Interest in Other Entities 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 application is permitted. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 13, Fair Value Measurement defines fair value, sets out in a single IFRS a 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 application permitted. The Company is currently assessing the impact on its consolidated financial statements.

IAS 27 Separate Financial Statements & IAS 28 Investments in Associates and Joint Ventures. 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 application 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. In 2004, the Plan was amended to provide employee holders of stock options the choice upon exercise to receive a cash payment in exchange for surrendering the option. The Company recognizes a liability and compensation expense based upon the intrinsic value of the outstanding options at the balance sheet date for options granted to employees of the Company with the cash settlement alternative. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

(f) Deferred income taxes

The Company accounts for potential future net tax assets which are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and which are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance has been applied to all potential income tax assets of the Company.

(g) Use of estimates

The preparation of financial statements in conformance with ISA 34, requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. These condensed consolidated interim financial statements include estimates which, by their very nature, are uncertain, The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based upon future occurrences. Revisions to accounting estimates are recognized in the period 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 areas where management's judgment is applied include the determination of future income taxes, stock based compensation and amortization of property and equipment. Actual results could differ from these estimates.

(h) Revenue recognition

Lease revenue is recorded when earned, determinable and collectability is reasonably assured.

(i) Property, plant and equipment

Land improvements, buildings and equipment and vehicles are carried at cost net of accumulated amortization. Amortization of buildings, improvements, machinery and equipment is provided principally by the straight-line method over estimated useful lives ranging from 3 to 30 years.

(j) 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 amortized 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 the carrying value is determined to be in excess of possible recoverable amounts they will be written off.

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.

(k) Exploration and evaluation

Exploration and evaluation expenditure 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 expenditure is 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.

(l) 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 development project are calculated using estimated future prices, mineral resources and operating and capital costs on an undiscounted basis. When estimated future undiscounted cash flows are less than the carrying value, the asset is considered impaired. Reductions in carrying value are recorded to the extent the book value exceeds the fair value of the assets.

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.

(m) Foreign currency translation

The functional and presentation currency of the Company is the 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 balance sheet dates;
- other assets and liabilities at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period.

Gains and losses arising from the conversion of foreign currency balances and transactions are reported in income as they occur.

(n) Financial assets and liabilities

The Company's financial assets and liabilities include cash and cash equivalents, short-term deposits, accounts receivable, prepayments, accounts payable and accrued liabilities and reclamation deposit.

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 designated its cash and cash equivalents and reclamation bond as held-for-trading, 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 and leases payable 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 the asset 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.

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 unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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 prepayments, 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. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity. The Company does not have any derivative financial instruments; interest is calculated using the effective interest method and foreign exchange gains and losses on monetary items.

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;
- Level III - measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

(o) 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.

(p) 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 amortized 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.

At March 31, 2011 and December 31, 2010, the does not have any asset retirement obligations other than reclamation liabilities as accrued.

(q) 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.

(r) 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 proceeds received, net of direct issue costs. Common shares issued for non-monetary consideration are recorded at the fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares.

(s) Interest income

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

(t) 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.

(u) 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.

(v) Comprehensive income (loss)

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

(w) 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 and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet 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 recoverability of amounts receivable and prepayments which are included in the consolidated interim statement of financial position;
ii. the estimated useful lives of property, plant and equipment which are included in the consolidated interim statement of financial position and the related depreciation included in the consolidated statement of comprehensive loss for the period ended September 30, 2011;
iii. the inputs used in accounting for share purchase option expense and fair value of share purchase warrants in the consolidated interim statement of comprehensive loss; and
iv. the nil provision for income taxes which is included in the consolidated interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the consolidated interim statement of financial position at September 30, 2011.

(Expressed in US Dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2011			December 31, 2010			January 31, 2010		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land improvements	$273,100	$9,900	$263,200	$175,100	$6,300	$168,800	$75,100	$6,300	$168,800
Buildings	419,500	223,000	196,500	343,700	220,600	123,100	301,800	218,100	83,700
Equipment and vehicles	1,306,600	604,300	702,300	763,100	558,400	204,700	646,700	335,200	311,500
Project labor	385,100	-	385,100				-	-	-
	$2,384,300	$837,100	$1,547,100	$1,281,900	785,300	$496,600	$1,123,600	$559,600	$564,000

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Sutter Gold Project, California

Lincoln and Comet Properties

The Sutter Gold Project – 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. Total annual lease payments are currently $30,000.

The lease terms are 30 years, broken down into ten year segments carrying a 4% production royalty or minimum annual payments as follows for the Lincoln and Comet property. An additional 0.5% net smelter return royalty is held by a consultant to a lessee 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, 2010, 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

(Expressed in US Dollars)

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.

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 obligations of $23,300 are secured by a $27,000 reclamation bond as at September 30, 2011 and December 31, 2010.

The Company also has two Certificates of Deposit held with US Bank totaling $50,000 as collateral for the Company's credit cards.

8. 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 (see Note 1) 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 at September 30, 2011 was 0.17% (December 31, 2010 - 0.26%). During the nine months period ending September 30, 2011 the Company paid $120,900 in interest (for twelve months ending December 31, 2010 - $278,200) in respect 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 and paid off 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 US$20 million. Proceeds are to be used to repay the existing RMBAH facility in the approximate amount of US$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 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 facility, as at September 30, 2011 US$10,716,901 had been drawn down.

The Company will deliver to the lender 50% of the project's 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 recorded a mark to market loss on this debt of US$8,573,351 being the difference between the spot price of repayable gold ounces as at September 30, 2011 and the aggregate of the agreed upfront payment price of US$377 per ounce plus the delivery price of US$942 per ounce.

9. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Common shares, no par value, authorized unlimited number of shares, issued and outstanding were 117,454,397 and 105,167,491 shares as at September 30, 2011 and December 31, 2010, respectively.

(Expressed in US Dollars)

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 September 30, 2011 and December 31, 2010.

(b) Warrants

As at September 30, 2011, there were no warrants outstanding, 12,214,100 were exercised on or before the expiration date of August 22, 2011 and 580,896 expired. As at December 31, 2010 - 12,699,502 warrants were outstanding at an exercise price of C$0.15.

10. 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 September 30, 2011 and as at December 31, 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)	0.21
Options Granted	1,899,000	0.18
Balance outstanding September 30, 2011	3,849,000	0.14

As at September 30, 2011, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

Number	Exercise Price C$	Expiry Date
900,000	0.11	June 9, 2014
500,000	0.11	September 7, 2014
500,000	0.11	September 14, 2014
50,000	0.13	December 1, 2014
75,000	0.22	February 16, 2016
300,000	0.19	May 1, 2016
24,000	0.18	June 1, 2016
1,500,000	0.18	July 19, 2016
3,849,000		

(Expressed in US Dollars)

11. 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.

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Net loss attributable to common shareholders	$ (8,231,200)	$ (727,000)	$(9,918,600)	$ (2,846,700)
Weighted average number of common shares in issue	105,675,352	102,597,439	105,675,352	102,597,439
Basic (loss) per share	$ (0.09)	$ (0.01)	$ (0.09)	$ (0.03)

(b) Diluted

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

12. INCOME TAXES

Non capital losses are available to reduce taxable income in Canada and the United States and expire in stages through 2029 as follows:

2016	789,000
2017	1,593,000
2018	1,836,000
2019	1,496,000
2020	603,000
Remaining	10,346,000
	16,663,000

13. FINANCIAL RISK MANAGEMENT

(a) Credit risk management

The Company's credit risk is primarily attributable to cash equivalents, short-term investments in liquid investments with a maturity greater than three months but less than one year, term deposits 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, leases payable and notes payable are due within the current operating period. As of September 30, 2011, the Company had a cash and balance of $4,513,000 (December 31, 2010 - $508,800) to settle current accounts payable and accrued liabilities of $552,400 (December 31, 2010 - $297,600).

(Expressed in US Dollars)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity. The Company is subject to interest rate risk on its loan facility. The Company has not presented a sensitivity analysis table as the interest rate risk at September 30, 2011 and December 31, 2010 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 September 30, 2011 and December 31, 2010 are 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, short-term investments and term-deposits, amounts receivable, reclamation deposit and amounts payable and accrued charges approximate their respective fair values due to the short-term nature of these instruments.

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 September 30, 2011		As at December 31, 2010		As at January 1, 2010	
Cash	$ 4,513,000	$ 4,513,000	$ 508,800	$ 508,800	$ 636,600	$ 636,600
Accounts receivable	13,800	13,800	7,400	7,400	13,200	13,200
Accounts payable and accrued liabilities	552,400	552,400	297,600	297,600	16,200	16,200
Lease payable	67,000	67,000	67,000	67,000	67,000	67,000
Note payable	19,290,200	19,290,200	5,132,400	5,132,400	1,889,800	1,889,800
Reclamation liability	23,300	23,300	23,300	23,300	23,300	23,300
Unrecognized (losses)/gains		$ -		$ -		$ -

(f) Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Trade and other receivables/payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

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.

15. CONTINGENT LIABILITIES

The Company has entered into employment agreements with three officers pursuant to which it could become liable to pay cash bonuses aggregating up to $780,000 upon the completion of defined performance milestones. These milestones are inclusive of, but not limited to, events relating directly to the commencement of commercial production from a mining project. Additionally, pursuant to the terms of these agreements, the Company would be obligated to pay an aggregate of $711,000 to these officers in the event that their employment is terminated through change in controls. No liability has been recognized in these financial statements as (i) the Company has no basis to assess the likelihood of future payments, and (ii) the amount of such payments cannot be reasonably estimated.

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 nine months period ending September 30, 2011 the Company paid $246,700 in interest to RMB Australia Holdings (for twelve months ending December 31, 2010 - $278,200) in respect to the Loan Facility as outlined in Note 8. 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 of the Company for the nine months ended September 30, 2011 and 2010 was as follows:

(Expressed in US Dollars)

	For the nine months ended September 30, 2011	2010
Aggregate compensation	$ 317,500	$ 143,065
Share based compensation	-	24,029
	$ 317,500	$ 167,094

17. TRANSITION TO IFRS

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

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information presented in these financial statements for the three and twelve months ended March 31, 2010 and December 31, 2010, respectively, 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 condensed consolidated interim financial statements.

IFRS Exemptions and Choices

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":

- 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. The Company has elected not to use fair value as historical cost bases under Canadian GAAP have been determined to be substantially the same under IFRS at transition date of January 1, 2010.

In preparing its opening IFRS statement of financial position at January 1, 2010, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as there were no differences identified.
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.

(Expressed in US Dollars)

Reconciliation of equity:

	Notes	January 1, 2010			September 30, 2010			December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	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	606,000	-	606,000	458,800	-	458,800
Accounts receivable		13,200	-	13,200	12,600	-	12,600	7,400	-	7,400
Prepaid expenses		16,200	-	16,200	39,100	-	39,100	77,300	-	77,300
		666,000	-	666,000	657,700	-	657,700	543,500	-	543,500
Reclemation bond		47,000	-	47,000	47,000	-	47,000	77,000	-	77,000
Mineral properties	*(a)*	806,300	(806,300)	-	806,300	(806,300)	-	806,300	(806,300)	-
Property and equipment		564,000	-	564,000	586,900	-	586,900	496,600	-	496,600
Total assets		2,083,300	(806,300)	1,277,000	2,097,900	(806,300)	1,291,600	1,923,400	(806,300)	1,117,100
Liabilities and Shareholders' Equity										
Current liabilities										
Accounts payable		151,300	-	151,300	252,900	-	252,900	297,600	-	297,600
Due to related parties		-	-	-	-	-	-	-	-	-
Leases payable		67,000	-	67,000	67,000	-	67,000	67,000	-	67,000
Note payable	*(b)*	2,178,600	(288,800)	1,889,800	4,647,200	(277,500)	4,369,700	5,132,400	(185,000)	4,947,400
Warrant derivative	*(c)*	-	267,000	267,000	-	484,000	484,000	-	1,328,000	1,328,000
		2,396,900	(21,800)	2,375,100	4,967,100	206,500	5,173,600	5,497,000	1,143,000	6,640,000
Reclamation liability		23,300	-	23,300	23,300	-	23,300	23,300	-	23,300
		2,420,200	(21,800)	2,398,400	4,990,400	206,500	5,196,900	5,520,300	1,143,000	6,663,300
Shareholders' (Deficiency) Equity										
Common shares		23,945,500	-	23,945,500	23,945,500	-	23,945,500	24,144,300	-	24,144,300
Preference shares		211,200	-	211,200	211,200	-	211,200	211,200	-	211,200
Contributed surplus	*(c)*	6,724,800	(712,500)	6,012,300	6,787,600	(712,500)	6,075,100	6,734,600	(712,500)	6,022,100
Deficit	*(a),(b)&(c)*	(31,218,400)	(72,000)	(31,290,400)	(33,836,800)	(300,300)	(34,137,100)	(34,687,000)	(1,236,800)	(35,923,800)
Total shareholders' (deficiency) equity		(336,900)	(784,500)	(1,121,400)	(2,892,500)	(1,012,800)	(3,905,300)	(3,596,900)	(1,949,300)	(5,546,200)
Total liabilities and equity		2,083,300	(806,300)	1,277,000	2,097,900	(806,300)	1,291,600	1,923,400	(806,300)	1,117,100

(Expressed in US Dollars)

Reconciliation of loss and comprehensive loss for the three and nine months period ended September 30, 2010 and the year ended December 31, 2010:

		The three months ended September 30, 2010			The nine months ended September 30, 2010			The year ended December 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
Continuing operations										
Lease revenue		14,300		14,300	27,100	-	27,100	32,100	-	32,100
Cost of tourism operations		-	-	-	-	-	-	900	-	900
Depreciation		13,600	-	13,600	45,700	-	45,700	59,300	-	59,300
Mine property holding costs		63,100	-	63,100	246,400	-	246,400	309,500	-	309,500
Office & miscellaneous		94,300	-	94,300	246,700	-	246,700	324,200	-	324,200
Feasibility study		140,400	-	140,400	590,200	-	590,200	765,500	-	765,500
Professional & contract services		69,000	-	69,000	206,100	-	206,100	290,700	-	290,700
Rent & electricity		24,200	-	24,200	64,000	-	64,000	90,800	-	90,800
Stock-based compensation		11,900	-	11,900	62,800	-	62,800	64,900	-	64,900
Travel & entertainment		13,600	-	13,600	43,500	-	43,500	66,900	-	66,900
Wages & benefits		230,200	-	230,200	574,700	-	574,700	773,200	-	773,200
		660,300	-	660,300	2,080,100	-	2,080,100	2,745,900	-	2,745,900
Loss from operations		(646,000)		(646,000)	(2,053,000)		(2,053,000)	(2,713,800)	-	(2,713,800)
Loss on retirement of assets		-	-	-	-	-	-	(94,500)	-	(94,500)
Gain (loss) on foreign exchange		300	-	300	(700)	-	(700)	(500)	-	(500)
Interest income		200	-	200	600	-	600	800	-	800
Interest expense	*(b)*	(78,400)	(92,500)	(170,900)	(182,900)	(285,000)	(467,900)	(278,200)	(377,500)	(655,700)
Loan transaction fees	*(b)*	(382,400)	273,800	(108,600)	(382,400)	273,800	(108,600)	(382,400)	273,800	(108,600)
Change in fair value of warrant derivative	*(c)*	-	(448,000)	(448,000)	-	(217,100)	(217,100)	-	(1,061,000)	(1,061,000)
		(460,300)	(266,700)	(727,000)	(565,400)	(228,300)	(793,700)	(754,800)	(1,164,700)	(1,919,500)
Net loss and comprehensive loss for the period		(1,106,300)	(266,700)	(1,372,983)	(2,618,400)	(228,300)	(2,846,700)	(3,468,600)	(1,164,700)	(4,633,400)
Net loss per share: Basic and diluted loss per share attributable to common shareholders		(0.01)		(0.01)	(0.03)		(0.03)	(0.03)		(0.05)
Weighted average number of common shares outstanding		102,597,439		102,597,439	102,597,439		102,597,439	102,859,682		102,859,682

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

a) Deferred mineral exploration costs

The Company records it 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: 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 until guidance that is more definitive is developed in this area. Such guidance is not expected to be issued until after the Company's changeover to IFRS. Canadian GAAP: Under Canadian GAAP all mineral resource properties are carried at cost. 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 will be transferred to mining properties and amortized through charges against income derived from mining operations. The Company will have a choice between retaining its existing 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, September 30, 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 - 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 to deficit;

September 30, 2010 - Note payable is reduced by $277,500 with an increase in financing costs of $285,000;

December 31, 2010 - Note payable is reduced by $185,000 with an increase in financing costs 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 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.

(Expressed in US Dollars)

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;

September 30, 2010 - Increase warrant derivative liability and increase net loss by $273,750;

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

d) Impact on deficit (Amanda is working on)

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

	Notes	January 1, 2010	September 30, 2010	December 1, 2010
Canadian GAAP		(31,218,400)	(33,836,800)	(34,687,000)
IFRS Adjustments				
Financing costs	*(b)*	385,000	273,800	273,700
Change in warrant derivative	*(c)*	445,500	(217,100)	(1,061,000)
Interest expense (amortization of financing costs)	*(b)*	(96,200)	(285,000)	(377,500)
Mineral costs written off	*(a)*	(806,300)	-	-
Cumulative adjustment from January 1, 2010		-	(72,000)	(72,000)
IFRS		(31,290,400)	(34,137,100)	(35,923,800)