SUTTER GOLD MINING INC.

Consolidated Financial Statements

December 31, 2010

and

December 31, 2009

(Expressed in US Dollars unless otherwise noted)

DeVISSER GRAY LLP
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sutter Gold Mining Inc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Sutter Gold Mining Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of net loss, comprehensive loss and deficit, shareholder's equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' 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 whether the consolidated financial statements are free of 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 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. and its subsidiaries as at December 31, 2010 and 2009 and their financial performance and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company has limited working capital, has no current sources of revenue and is dependent upon its ability to secure new sources of financing. As of December 31, 2010, the Company's current liabilities exceeded its total assets by $3.6 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

De Visser Gray LLP

CHARTERED ACCOUNTANT
Vancouver, BC
March 21, 2011

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SUTTER GOLD MINING INC.
CONSOLIDATED BALANCE SHEETS
As at December 31,

(Expressed in US Dollars)

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	$ 508,800	$ 656,600
Accounts receivable	7,400	13,200
Prepaid expenses	77,300	16,200
Total current assets	593,500	686,000
RECLAMATION BOND (Note 3)	27,000	27,000
MINERAL PROPERTIES (Note 5)	806,300	806,300
PROPERTY AND EQUIPMENT (Note 4)	496,600	564,000
	$ 1,923,400	$ 2,083,300
CURRENT LIABILITIES		
Accounts payable	$ 297,600	$ 151,300
Leases payable	67,000	67,000
Note payable (Note 7)	5,132,400	2,178,600
Total current liabilities	5,497,000	2,396,900
RECLAMATION LIABILITY (Note 3)	23,300	23,300
	5,520,300	2,420,200
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Common shares (Note 8)	24,144,300	23,945,500
Preference shares (Note 8)	211,200	211,200
Contributed surplus (Note 8)	6,734,600	6,724,800
Deficit	(34,687,000)	(31,218,400)
Total shareholders' deficiency	(3,596,900)	(336,900)
	$ 1,923,400	$ 2,083,300

Continuing operations (Note 1)
Contingencies (Note 13)

Approved by the Board of Directors

"James Crombie" Director *"Mark T Brown"* Director

SUTTER GOLD MINING INC.

CONSOLIDATED STATEMENTS OF NET LOSS, COMPRENSIVE LOSS AND DEFICIT

For the Years Ended December 31,

(Expressed in US Dollars)

		2010		2009
OPERATING REVENUES				
Lease revenue	$	32,100	$	33,700
OPERATING COSTS AND EXPENSES				
Amortization		59,300		49,200
Investor relations		73,900		55,400
Management fees		1,900		10,600
Mine and property holding costs		309,500		185,800
Office & miscellaneous		299,600		207,800
Permits & lease payments		8,000		27,200
Feasibility study		765,500		1,096,400
Professional & contract services (Note 6)		214,900		165,600
Rent & electricity		90,800		56,200
Stock-based compensation (Note 8)		64,900		115,900
Transfer & listing fees		16,600		29,200
Travel & entertainment		67,800		59,600
Wages & benefits		773,200		896,600
		2,745,900		2,955,500
OPERATING LOSS		(2,713,800)		(2,921,800)
OTHER INCOME AND (EXPENSES)				
Loss on retirement of assets		(94,500)		-
Loss on foreign exchange		(500)		(4,600)
Interest income		800		2,700
Interest expense (Note 6)		(278,200)		(40,500)
Loan transaction fees (Note 6)		(382,400)		(385,000)
		(754,800)		(427,400)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		(3,468,600)		(3,349,200)
DEFICIT, BEGINNING OF YEAR		(31,218,400)		(27,869,200)
DEFICIT, END OF YEAR	$	(34,687,000)	$	(31,218,400)
NET LOSS PER SHARE	$	(0.03)	$	(0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		102,859,682		102,475,427

SUTTER GOLD MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31,
(Expressed in US Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (3,468,600)	$ (3,349,200)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization	59,300	49,200
Loss on retirement of assets	94,500	-
Stock-based compensation	64,900	115,900
Net changes in components of working capital:		
Accounts receivable	5,800	(2,500)
Prepaid expenses	(61,100)	(11,700)
Accounts payable	146,300	34,100
Due to/from related parties	-	(3,200)
NET CASH USED IN OPERATING ACTIVITIES	(3,158,900)	(3,167,400)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(86,400)	(70,800)
NET CASH USED IN INVESTING ACTIVITIES	(86,400)	(70,800)
CASH FLOWS FROM FINANCING ACTIVITES		
Proceeds from promissory notes	2,953,800	2,178,600
Proceeds from issuance of common stock	143,700	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,097,500	2,178,600
NET DECREASE IN CASH AND CASH EQUIVALENTS	(147,800)	(1,059,600)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	656,600	1,716,200
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 508,800	$ 656,600

Cash and cash equivalents consist of

	2010	2009
Cash	$ 488,800	$ 536,600
Cash equivalents	20,000	20,000
	$ 508,800	$ 656,600

Supplemental disclosure of cash flow information (Note 9)

SUTTER GOLD MINING INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEAR ENDED DECEMBER 31, 2010
(Expressed in US Dollars)

	Number of Preferred Shares	Preference Shares	Number of Common Shares*	Share Capital	Contributed Surplus	Deficit	Total Shareholders' (Deficiency) Equity
Balance, December 31, 2008	254,414	$ 211,200	103,872,038	$ 23,945,500	$ 6,608,900	$ (27,869,200)	$ 2,896,400
Stock-based compensation (Note 8)	-	-	-	-	115,900	-	115,900
Net loss	-	-	-	-	-	(3,349,200)	(3,349,200)
Balance, December 31, 2009	254,414	211,200	103,872,038	23,945,500	6,724,800	(31,218,400)	(336,900)
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)	-	-
Stock-based compensation (Note 8)	-	-	-	-	64,900	-	64,900
Net loss	-	-	-	-	-	(3,468,600)	(3,468,600)
Balance, December 31, 2010	254,414	$ 211,200	105,167,492	$ 24,144,300	$ 6,734,600	$(34,687,000)	$ (3,596,900)

**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, 2010: 1,190,935 (December 31, 2009 - 1,396,610) of these shares remained unallotted.*

SUTTER GOLD MINING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Expressed in US Dollars unless otherwise noted)

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Sutter Gold Mining Inc. ("SGMI" or "the Company"), is incorporated in the province of British Columbia, and its principal business activity is the exploration of mineral properties.

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, 2010, 1,190,935 (December 31, 2009 - 1,396,610) of these common shares still remain to be allotted.

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. As of December 31, 2010, RMB owned 51,832,120 (49.3%) of the outstanding common shares of the Company.

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 $34,687,000 as of December 31, 2010 (December 31, 2009 - $31,218,400). 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 (see Note 7) to cover short-term operating capital requirements. As a result of entering into the loan facility, the Company has a working capital deficiency as at December 31, 2010 of $4,903,500 (2009 - $1,710,900).

If the Company is unable to raise adequate financing or meet current obligations, 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 continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Principles of consolidation

The consolidated financial statements of the Company include the accounts of the Company and those of its subsidiaries SGMC and USECC Gold LLC. All material intercompany profits, transactions and balances have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts. Cash equivalents consist of short term certificates of deposit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Foreign currency translation

The Company's reporting currency 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, and;
- gains and losses arising from the conversion of foreign currency balances and transactions are reported in income as they occur.

Mineral properties and deferred costs

The cost of mineral properties and their related direct exploration and development costs are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful life of the property following the commencement of production, or written-off if the properties are sold, allowed to lapse or abandoned. All costs of general exploration are expensed as incurred. All other costs, including costs related to feasibility studies, are expensed as incurred.

Cost includes any cash consideration and the fair market value of shares issued on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. 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.

The Company reviews capitalized costs on its property interests on a periodic basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Property 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

Transaction costs

Transaction costs related to the financial instruments are recognized immediately into expense.

Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and from revisions to either expected payment dates or the amounts comprising the original estimate of the obligation. At December 31, 2010 the Company does not have any asset retirement obligations other than reclamation liabilities as accrued.

Retirement of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

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.

Revenue recognition

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

Stock-based compensation

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

Future 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.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates 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. Significant areas where management's judgement 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.

Share capital

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.

Loss Per Share

Loss per share data are computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding during the period. Shares issuable upon the exercise of share purchase warrants and stock options were excluded from the computation of loss per share because their effect would be anti-dilutive.

Future Accounting Changes

CICA Sections 1582, 1601, 1602 Business Combinations, Consolidations, and Non-Controlling Interests

In January 2009, the AcSB issued the following Handbook sections: 1582 – Business Combinations, 1601 – Consolidations, and 1602 – Non-Controlling Interests. These new Sections will be applicable to financial statements relating to the Company's interim and fiscal year end beginning on or after January 1, 2011. Early adoption is permitted. The Company does not expect that there will be any material impact upon its adoption of these new sections on its consolidated financial statements.

(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (cont'd)

IFRS Convergence

In February 2008, the CICA announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS.

The Company commenced its IFRS conversion project in 2008. The Company's IFRS project consists of three phases – scoping, evaluation and design, and implementation and review. The Company has completed the scoping and evaluation phases of the project, which consisted of project initiation and awareness, identification and preliminary quantification of differences between Canadian GAAP and IFRS.

A detailed assessment of the impact of adopting IFRS on the Company's consolidated financial statements, accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, and the various covenants and capital requirements and business activities is currently in progress. The impact on such elements will depend on the particular circumstances prevailing at the adoption date and the IFRS accounting policy choices made by the Company. The financial performance and financial position as disclosed in the Company's GAAP consolidated financial statements may be significantly different when presented in accordance with IFRS upon finalization of management's preliminary estimates of the differences.

3. RECLAMATION BOND

Future reclamation and mine closure costs will be the responsibility of the Company and are based on legal and regulatory requirements. The laws and regulations are continually changing and are generally becoming more restrictive. The Company believes it is in compliance with applicable laws and regulations and expects to make future expenditures to comply with these laws and regulations. Current estimated reclamation obligations of $23,300 are secured by a $27,000 reclamation bond as at December 31, 2010 (December 31, 2009 - $27,000).

4. PROPERTY AND EQUIPMENT

	2010			2009
	Cost	Accumulated depreciation	Net book value	Net book value
Land improvements	$ 175,100	$ 6,300	$ 168,800	$ 168,800
Buildings	343,700	220,600	123,100	83,700
Equipment and vehicles	763,100	558,400	204,700	311,500
	$ 1,281,900	$ 785,300	$ 496,600	$ 564,000

(Expressed in US Dollars unless otherwise noted)

5. MINERAL PROPERTIES

Mining Claims Expenditures

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to its properties are in good standing.

	2008	Net Additions	2009	Net Additions	2010
Lincoln and Comet Project					
Underground drilling	$ 806,300	$ -	$ 806,300	$ -	$ 806,300
Total Mining Claims Expenditures	$ 806,300	$ -	$ 806,300	$ -	$ 806,300

USE has a Net Profits Interest royalty ("NPIR") of 5% until a total amount of $4.6 million is paid, and a 1% NPIR thereafter.

Sutter Gold Project

Lincoln and Comet Properties

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 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 properties. 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

(Expressed in US Dollars unless otherwise noted)

5. MINERAL PROPERTIES (cont'd)

Eureka Property

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land called the Eureka Property. This land is immediately adjacent to the Company's Sutter Gold Project. The lease term is 30 years, broken down into ten year segments carrying a 4% production royalty or a minimum annual payment. As of December 31, 2010, 12,000 common shares had been issued to the Eureka Property's owner for the first year's payment and the second through fourth years' payments have been made up to date.

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 ($7,000 during the 2nd 10 year span and $10,000 during the 3rd 10 year span). 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. The base lease payment for each of the 2 ten year renewal terms shall be 120% of the annual base lease payment for the immediately preceding primary term. 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 – Santa Teresa

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 follows:

5. MINERAL PROPERTIES (cont'd)

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 (earned) 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 also 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.

6. TRANSACTIONS WITH RELATED PARTIES

During 2010, the Company paid $278,200 in interest (2009 - $40,500) in respect to the Loan Facility as outlined in Note 7. In addition, the Company incurred loan transaction financing fees in the amount of $382,400 (2009 - $385,000) in respect to setting up the Loan Facility agreement in 2009 and to further extending it in 2010.

During fiscal 2009, the Company incurred C$26,100 (2010 - nil) for administrative and secretarial fees to a private Company controlled by a director.

Related party transactions are measured at their exchange amounts as determined by management. The amounts bear no interest and are unsecured with no repayment terms.

7. 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. On August 31, 2010, the Loan Facility credit limit was increased by $3,650,000, thereby increasing the total available credit limit to $7,900,000.

The Loan Facility matures on June 30, 2011 and bears an interest rate of Libor plus 7.5% per annum, calculated and payable on a monthly basis. At December 31, 2010, the base Libor rate was 0.26%. Refer to Note 6 for the amount of interest and financing fees paid in respect to this Loan Facility during fiscal 2009 and 2010 respectively.

The Loan Facility is secured by substantially all of the assets of the Company.

(Expressed in US Dollars unless otherwise noted)

8. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares without par value and an unlimited number of preference shares without par value.

Refer to the Consolidated Statements of Shareholders' Equity (Deficiency) for a continuity of common shares.

Series 1 Convertible Redeemable Preference shares	Number of Shares	Amount
Balance, December 31, 2010 and December 31, 2009	254,414	$ 211,200

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.

Warrants outstanding

	Warrants	Weighted Average Exercise Price C$
Balance outstanding, December 31, 2008	12,794,994	0.15
Balance outstanding, December 31, 2009	12,794,994	0.15
Exercised warrants	(95,454)	0.15
Balance outstanding, December 31, 2010	12,699,502	0.15

As at December 31, 2010, 12,699,502 warrants were outstanding at an exercise price of C$0.15, originally set to expire on August 22, 2010. The Company filed an application with the TSX Venture Exchange to extend the expiry date to August 22, 2011 from August 22, 2010. The Exchange approved the Company's application on August 6, 2010.

Options outstanding

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, officers and employees to acquire up to 10% of issued and outstanding common stock.

	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)	0.22
Balance outstanding December 31, 2010	2,566,000	0.15

(Expressed in US Dollars unless otherwise noted)

8. SHARE CAPITAL (cont'd)

As at December 31, 2010 the following options were outstanding:

Number	Exercise Price C$	Expiry Date
200,000	0.30	April 20, 2011
305,000	0.35	August 16, 2011
900,000	0.11	June 9, 2014
500,000	0.11	September 7, 2014
500,000	0.11	September 14, 2014
161,000	0.13	December 1, 2014
2,566,000		

The weighted-average remaining life of options outstanding as at December 31, 2010 was 2.99 years (December 31, 2009 – 2.85 years).

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of options vested in the period ended December 31, 2010 totaled $64,900 (2009 - $115,900).

There were no new options granted during the period ended December 31, 2010.

Contributed Surplus

Refer to the Consolidated Statements of Shareholders' Equity (Deficiency) for a continuity of contributed surplus.

9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	2010	2009
Interest income	$ 800	$ 2,700
Interest paid	$ (278,200)	$ (40,500)

(Expressed in US Dollars unless otherwise noted)

10. INCOME TAXES

The Company had no income taxes payable at December 31, 2010 and 2009.

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2010	2009
Net Loss	$ (3,468,600)	$ (3,349,200)
Effective Statutory Rate	39.42%	40.23%
Expected tax recovery	(1,367,200)	(1,347,500)
Net effect of non-deductible amounts	47,900	127,200
Valuation allowance	1,319,300	1,220,300
	$ -	$ -

Future income tax assets reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets as at December 31, 2010 and 2009 are as follows:

	2010	2009
Non capital loss carry-forwards	$ 21,350,000	$ 16,663,000
Deferred cost pools	(806,300)	(806,300)
Tax basis differences in property and equipment	462,400	46,800
Total	21,006,100	15,903,500
Statutory rate	39.86%	40.93%
Potential future income tax assets	8,409,500	6,509,700
Valuation allowance	(8,409,500)	(6,509,700)
	$ -	$ -

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

	2010
2016	789,000
2017	1,593,000
2018	1,836,000
2019	1,496,000
2020	603,000
2021	265,000
2023	572,000
2024	760,000
2025	1,136,000
2026	1,918,000
2027	1,293,000
2028	1,922,000
2029	3,967,000
2030	3,200,000
	21,350,000

(Expressed in US Dollars unless otherwise noted)

11. FINANCIAL INSTRUMENTS

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.

Fair value hierarchy

Financial instruments recognized at fair value on the consolidated balance sheets must be classified into one of the following 3 fair value hierarchy values:

- 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.

The Company's financial instruments carrying amounts and fair values by categories and levels per the fair value hierarchy are as follows:

		2010		2009	
	Fair value hierarchy level	Held for sale at fair value	Loans and receivables/ other financial liabilities at amortized cost	Held for sale at fair value	Loans and receivables/ other financial liabilities at amortized cost
Financial assets and liabilities:					
Cash and cash equivalents	I	$ 508,800	$ -	$ 656,600	$ -
Reclamation liability	I	27,000	-	27,000	-
Accounts receivable		-	7,400	-	13,200
Accounts payable		-	297,600	-	151,300
Lease payable		-	67,000	-	67,000
Note payable			5,132,400		2,178,600
		$ 535,800	$ 5,504,400	$ 683,600	$ 2,410,100

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk.

(a) Currency 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, 2010 are not material to the Company's financial statements.

11. FINANCIAL INSTRUMENTS (cont'd)

(b) Credit risk

The Company's cash and cash equivalents are held in Canadian and U.S. financial institutions. The Company does not have any asset-backed commercial paper in its cash and cash equivalents. The Company's accounts receivable consists primarily of goods and services tax due from the federal government of Canada.

(c) 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.

(d) 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 December 31, 2010 is not considered material to the Company's financial statements.

12. MANAGEMENT OF CAPITAL RISK

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.

13. 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 $830,000 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 can not be reasonably estimated.

14. SUBSEQUENT EVENTS

Subsequent to year-end, the Company issued 93,183 common shares for nil consideration as part of the remaining 1,097,752 allotted common shares required to be issued to former shareholders of SGMC (see Note 1).