

**SUTTER GOLD MINING INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
**CONTAINING INFORMATION UP TO AND INCLUDING MARCH 22, 2011**

The following discussion and analysis is management's assessment of the results and financial condition of Sutter Gold Mining, Inc., ("the Company") for the quarter ended December 31, 2010. The reader is encouraged to review the Company's statutory filings on [www.sedar.com](http://www.sedar.com) and on the Company's website [www.suttergoldmining.com](http://www.suttergoldmining.com).

All currency amounts are expressed in US dollars unless otherwise noted.

Technical information in this MD&A has been reviewed by consulting geologist and Independent Qualified Person Mark Payne, P. Geo. Calif. #7076. Resources were defined according to CIM Definitions for Mineral Resources, and are compliant with NI43-101, Standards of Disclosure for Mineral Projects.

**Business Overview**

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

Approximately 97% of SGMC's shareholders tendered their shares for 43,382,632 common shares of the Company as of December 31, 2010. The Company has allotted another 1,190,935 common shares for the other 3% of SGMC's shareholders to tender their shares in the future.

On June 12, 2008, RMB Resources Ltd. ("RMB"), a trustee for the Telluride Investment Trust, entered into a private agreement to purchase an aggregate of 39,062,072 (49.9%) common shares of the Company from U.S. Energy Corp. ("USE") for an aggregate purchase price of approximately C\$5,400,000, in accordance with the terms of a share purchase agreement and subject to certain closing conditions. On August 22, 2008, RMB completed the acquisition. As of December 31, 2010, RMB owned 51,832,120 (49.9%) of the outstanding common shares of the Company.

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

Upon the change of ownership and appointment of new management, corporate offices were relocated to Lakewood, Colorado and independent accounting, financial, communications, payroll and benefits, insurance, and investor relations systems were established that supports the Company's administration, exploration, mine development, and operational activities. Effective September 25, 2009 James Crombie, Director, was been appointed as President and CEO.

**Mining Claims and Feasibility Expenditures**

	December 31, 2009	Net Additions	December 31, 2010
Lincoln & Comet Project			
Drilling and underground development	\$ 806,300	\$ - 0 -	\$ 806,300
Feasibility study	1,217,000	765,500	1,982,500
Total Expenditures	<u>\$ 2,023,300</u>	<u>\$ 765,500</u>	<u>\$ 2,788,800</u>

### Sutter Gold Mine and Lincoln Project

The Company's wholly owned subsidiary SGMC owns the Sutter Gold Mine and Lincoln Project that are located in the historic Mother Lode District east of Sacramento, California. The Sutter Gold Mine and Lincoln Project are situated on a 551-acre block of surface and mineral rights owned in fee or leased from fee owners 45 miles east-southeast of Sacramento, California, in the central part of the 121-mile-long Mother Lode gold belt. SGMC's property lies within a 10-mile section of the Mother Lode belt which is credited with production of 7.8 million ounces of gold. SGMC's property had a recorded production of 3,437,500 ounces of gold, essentially all recovered prior to 1920. Records indicate that these formerly producing mines had documented reserves at the time of their closing that have not been recovered.

A 2008 Mineral Resource estimate for the Sutter Gold Project was completed by Sutter Gold Mining Inc. consulting geologist and Independent Qualified Person Mark Payne, P. Geo. Calif. #7076, and published with all support data as a Technical Report, filed at the website [www.sedar.com](http://www.sedar.com). Resources were defined according to CIM Definitions for Mineral Resources, and are compliant with NI43-101, Standards of Disclosure for Mineral Projects. The summary of the updated Indicated and Inferred Resources for the Lincoln Project is available in the February 13, 2008 news release.

Several mineralized zones in both the Lincoln-Comet and Keystone areas remain open down plunge to the southeast and to depth.

Full time employees have been added where they are engineering and designing underground mine plans, updating project cost and schedule estimates while maintaining existing permits and facilities. Key consultants have been retained and are assisting with site design, geologic modeling, metallurgical testing, material characterization, process design, equipment selection and operations planning.

Our consultants have conducted and released their final report for metallurgical testing to determine grind size, gravity and flotation recoveries, and reagent requirements for final process flow sheet design, equipment selection and operating cost estimations. In addition we have completed material testing and equipment selection for dewatering, storage, mixing and delivery of process material for surface fill unit and underground backfill. Other consultants are assisting with material characterization, and design, construction and operating cost estimates for the Surface Fill Unit, Construction Rock Storage and modifications necessary to existing operational permits as well as design and construction cost estimates for the process facility and support buildings and operational units. Geologic consultants have recently completed geologic interpretation and three-dimensional modeling of the deposit, allowing for detailed mine planning to proceed.

Sutter Gold Mining has completed geologic modeling and mine planning for resource and economic evaluation. A detailed, mine development plan and production/grade schedule has been prepared for technical reporting as defined by NI 43-101. SGM and its consultants are finalizing a technical report anticipated for release in Q1 of 2011.

The Lincoln Project is subject to local, state and federal permitting requirements administered by numerous governmental agencies. The Amador County Board of Supervisors issued a mining permit for the Lincoln Project in 1993. In 1998, the permit was modified to allow for mill tailings to be placed in a surface fill unit negating the expense and necessity of a conventional tailings pond facility. The Lincoln Project requires five major operating permits and approvals numerous other lesser or minor operating permits and approvals. The Company has obtained all five major operating permits. In addition, the Company has obtained all minor operating permits and approvals for the project components constructed to date. The Company continues to implement a strategic and systematic plan, focusing on critical permitting activities necessary to obtain the remaining permits and bring the mine into production. The Company is preparing current operating parameters for the 1998 mining permit that will reflect advances in technology, reduced operating tonnages

and more efficient and economical operating constraints than already allowed under the Project's existing Conditional Use Permit that includes a 1,000 ton per day mine and mill with cyanide circuit.

The Company's strategic approach focuses on obtaining the remaining permits, including permit revisions or amendments required for an environmentally friendly, smaller-scale operation and concentrate production. Remaining permitting activities needed to bring the Project to production, which will include the use of consultants, and that are expected to be completed in 2011 include the following permitting activities: Wetlands (and related permits); Conditional Use Permit Amendment (if necessary); Authority to Construct/Permit to Operate; Amend WDR Order 99-035; Grading/Building Permits; Encroachment Permits; Stormwater Permit; Construction Stormwater Permit; Maintenance Agreements; Storage Statement; Amend Diesel Engine Permit; and Blaster's License.

The Company's short range goal is to produce gold from the Lincoln-Comet deposit by initiating state-of-the-art, environmentally compatible mining operations on a modest scale similar to the historic mining in the Mother Lode but with a contemporary understanding of the myriad issues associated with such endeavors. Engineering, design and economic evaluation has been ongoing for the past two years towards this end. The Company has employed a core professional staff with direct experience in these type of operations and is identifying additional candidates for the team of people necessary for such an operation. SGMC continues to evaluate the potential opportunity to further consolidate mineral properties contained within the 10-mile section of the Mother Lode Trend.

#### Lincoln and Comet Properties

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

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

<u>Years</u>	<u>Annual Payments</u>	
	<u>Lincoln</u>	<u>Comet</u>
1-10	\$ 1,200	\$ 2,400
11-20	\$ 2,400	\$ 4,800
21-30	\$ 3,600	\$ 7,200
31-40 (10 year option)	\$ 4,800	\$ 9,600
41-Thereafter (annual option)	\$ 4,800	\$ 9,600

#### Eureka Mines

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land immediately adjacent to the Company's properties in California, called the Eureka Property. The lease term is 30 years, broken down into ten years segment carrying a 4% production royalty or a minimum annual payment. As of December 31, 2008, 12,000 common shares were issued to the Eureka Property's owner for the first year's payment and the second through fourth years' payments have been made up to date.

<u>Years</u>	<u>Annual Payments</u>
1-10	\$ 2,400
11-20	\$ 3,600
21-30	\$ 4,800
31-40 (10 year option)	\$ 6,000
41-Thereafter (annual option)	\$ 6,000

#### Keystone Property

Effective August 1, 2003, the Company entered into a lease ("Third Amendment to Mining Lease and Option") with Keystone Mining Corporation. The lease covers certain properties at the Sutter Gold Project and requires payments of \$5,000 per year for the first 10 years of the lease. A royalty of 5% of the net profits on production exists on these properties. The "net profits" will be determined by subtracting from gross mineral revenues an amount equal to 105% of numerous categories of costs and expenses. All payments have been made up to date.

#### Cecchettiini Trust

Effective May 20, 2009, the Company entered into a Mineral Lease Agreement with the Cecchettiini 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.

#### Ecuador Property - NSR Interest

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

#### Mexican Property

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

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

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

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

(to a 65% interest) by paying a further \$500,000 to the Company and conducting an additional \$4.0 million in exploration on the property.

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

For more information on the drill results, please refer to the news releases available on [www.sedar.com](http://www.sedar.com).

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

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

## Results of Operations

### Selected Annual Information

	Year ended Dec 31, 2010	Year ended Dec 31, 2009	Year ended Dec 31, 2008
	\$	\$	\$
Total revenues	32,100	33,700	40,800
Operating costs and expenses	2,745,900	2,955,500	1,277,500
Loss for the year	3,468,600	3,349,200	1,553,900
Loss per share – basic and diluted	0.03	0.03	0.02
Total assets	1,923,400	2,083,300	3,107,100
Total long-term financial liabilities	23,300	23,300	23,300
Cash dividends accrued	Nil	Nil	Nil

### Results of operations for the year ended December 31, 2010 compared to the year ended December 31, 2009

In the year ended December 31, 2010, the Company's net loss increased by \$119,400 and totaled \$3,468,600 compared to a net loss of \$3,349,200 during the same period in 2009. Interest expense for the year ended December 31, 2010 totaled \$278,200 compared to \$40,500 for the same period in 2009 due to the increased balance on the loan facility. The Company incurred a non-cash loss on the retirement of certain assets in the amount of \$94,500 in 2010 with no corresponding loss in 2009.

Operating costs and expenses decreased by \$209,600 and totaled \$2,745,900 for the year ended December 31, 2010, compared to \$2,955,500 for the same period in 2009. Contributing factors for the decrease were costs incurred for the feasibility study decreased by \$330,900 and totaled \$765,500 compared to \$1,096,400 during the same period in 2009 due to this study nearing completion. Salaries and wages totaling \$773,200 which decreased from \$896,600 from the same period in 2009 due to the CEO resigning late in 2009. Stock based compensation decreased from \$115,200 for the year ended December 31, 2009 to \$64,900 in the same period in 2010 due to the timing of stock option grants. Offsetting these decreases the Company had a

\$123,700 increase in mine and property holding expenses for the year ended December 31, 2010 compared to the same period in 2009, due to increased environmental and permitting activity. The Company also had a \$91,800 increase in office and miscellaneous in 2010 compared with 2009, primarily due to the addition of office space in Sutter Creek and related cost increases. Lastly, there was a \$49,500 increase in professional services in the year ended December 31, 2010 compared to the same period in 2009 due to increased legal services and contract services associated with a new computer program and database support in the Sutter Creek office.

### Summary of Quarterly Results

Expressed In \$	Dec 10	Sep 10	Jun 10	Mar 10	Dec 09	Sep 09	Jun 09	Mar 09
Operating revenues	5,000	14,300	6,000	6,800	11,200	2,400	16,500	3,600
Net loss	(850,200)	(1,106,300)	(760,400)	(751,700)	(651,300)	(1,304,500)	(717,100)	(676,300)
Loss per share	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)

### Results of Operations for the Fourth Quarter of 2010 and 2009

In the three months ended December 31, 2010, the Company's net loss increased by \$198,900 and totaled \$850,200 compared to a net loss of \$651,300 during the same period in 2009. Interest expense increased to \$95,300 in 2010 versus \$31,000 in 2009 due to the increased balance on the loan facility. The Company incurred a non-cash loss on the retirement of certain assets in the amount of \$94,500 in the three months ended December 31, 2010 versus no corresponding loss in the the same period in 2009.

Operating costs and expenses increased by \$28,100 and totaled \$665,800 for the three months ended December 31, 2010, compared to \$637,700 for the same period in 2009. Contributing factors for the increase were costs incurred for salaries and wages totaling \$198,500 which increased from \$152,900 from the same period in 2009 due to accruals for contractual bonuses and vacation liability . The Company had a \$17,300 increase in office and miscellaneous in 2010 compared with the same three month period in 2009, primarily due to the addition of office space in Sutter Creek and related cost increases. Professional services increased \$15,000 for the quarter ended December 31, 2010 when compared with the same period in 2009, this increase is due to increased legal tax and audit services with regards to IFRS compliance and further progress on the companies technical report. Travel and entertainment have also increased \$15,500 for the fourth quarter 2010 compared to the fourth quarter 2009, due to increased travel for investment conferences as well as travel for employee recruitment. Offsetting these increases Feasibility decreased by \$62,600 and totaled \$175,300 compared to \$237,900 during the same period in 2009. Stock based compensation decreased from \$24,700 in the fourth quarter 2009 to \$2,100 in the same period in 2010 due to the timing of stock option grants.

### Liquidity and Capital Resources

The Company's working capital deficiency at December 31, 2010, was \$4,903,500 versus \$1,710,900 working capital deficiency at December 31, 2009. Cash and cash equivalents totaled \$508,800 at December 31, 2010, a decrease of \$147,800 from \$656,600 at December 31, 2009.

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.

During the year ended December 31, 2010, the Company spent \$86,400 on property and equipment compared to \$70,800 for the same period in 2009. For the year ended December 31, 2010, \$3,158,900 was used in operating activities compared to \$3,167,400 in 2009.

The authorized share capital of the Company consists of unlimited number of common shares without par value and unlimited number of preference shares without par value. As at December 31, 2010, the Company's share capital increased from 2009 year end of \$23,945,500 representing 103,872,038 common shares, of which 1,194,735 were allotted to former SGMC's shareholders to tender their shares in the future to 24,144,300 representing 105,167,491 common shares, of which 1,190,935 were allotted. The Company also had 254,414 preference shares outstanding as at December 31, 2010 also unchanged from the 2009 year end, valued at \$211,200

As at December 31, 2010, the Company had 2,566,000 stock options outstanding at an exercise price ranging from C\$0.11 to C\$0.35 and expiry dates from April 20, 2011 to December 1, 2014. If all the remaining outstanding options were to be exercised, the Company's available cash would increase by C\$396,680.

As at December 31, 2010, the Company had a total of 12,699,502 warrants outstanding with an exercise price of C\$0.15 per share expiring on or before August 22, 2010. If all the remaining warrants outstanding as at the date of this report were exercised, the Company's available cash would increase by C\$1,904,925. During the third quarter 2010 the Company filed Form 4D with the TSXV to extend the warrants expiry date to August 22, 2011 from August 22, 2010. This extension was approved by the TSXV on August 6, 2010.

As at the date of this report, the Company had 105,167,491 common shares issued and outstanding of which 1,190,935 common shares were allotted. On a diluted basis the Company had 120,687,407 shares outstanding.

As at December 31, 2010, the deficit was \$34,687,000 (December 31, 2009: \$31,218,400). The increase was the result of the net loss of \$3,468,600 for the year ended December 31, 2010.

### **Property and equipment**

As of December 31, 2010, the cost of the Company's property and equipment totaled \$1,281,900 offset by accumulated depreciation of \$785,300. For the year ended December 31, 2010, depreciation totaled \$59,300 (2009 - \$49,200).

### **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 are secured by a \$27,000 reclamation bond as of December 31, 2010.

## **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.

## **Changes in accounting policies**

### *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.

## **IFRS convergence**

In late 2009, the Company commenced a comprehensive IFRS conversion plan which addressed changes in accounting policies, restatement of comparative periods, organization, internal controls and any required changes to business processes. To facilitate this process and ensure that the full impact of the conversion was understood and managed reasonably, the Company has retained consultants to be responsible for the IFRS conversion project. Through assistance with respect to training and preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting department has obtained sufficient understanding of IFRS for implementation purposes.

The Company's IFRS implementation project consists of three primary phases which will be completed by a combination of in-house resources and external consultants.

1. Initial diagnostic phase ("Phase I") – Involves preparing a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact on our financial reporting and the overall difficulty of the conversion effort.
2. Impact analysis, evaluation and conversion phase ("Phase II") – Involves the selection of IFRS accounting policies by senior management and the review by the audit committee, the quantification of the impact of changes on our existing accounting policies on the opening IFRS balance sheet and the development of draft IFRS financial statements.
3. Implementation and review phase ("Phase III") – Involves training key finance and other personnel and implementation of the required changes to our information systems and business policies and procedures. It will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements.



The Company has substantially completed Phases I and Phase II and is currently engaged in Phase III.

Sutter Gold is required to apply all of those IFRS standards which are effective for fiscal period ending December 31, 2011 and apply them to its opening January 1, 2010 balance sheet (Transition date).

The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required.	Substantially completed
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	Substantially completed
Assessment of first-time adoption (IFRS 1) requirements and alternatives.	Substantially completed
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Substantially completed
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Substantially completed
Management and employee education and training	Throughout the transition process and implementation process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout 2011

The differences as identified in Phase I and the Company's proposed actions under Phase II are summarized below.

**a) Transitional Impact on Financial statement presentation and classification**

The Company's financial statements will have a different format upon transition to IFRS.

The components of a complete set of IFRS financial statements are: statement of financial position (balance sheet), statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes including accounting policies. Income statement will be presented as a component of the statement of comprehensive income.

*Impact on Company: The Company will reformat the financial statements in compliance with IAS 1.*

**b) IFRS-1 Transitional policy choices and exceptions for retrospective application**

IFRS-1 contains the following policy choices with respect to first-time adoption that are applicable to the Company.

**Property, plant & equipment:**

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical cost basis under Canadian GAAP.

*Impact on Company: The Company has decided to elect to use the historical cost carrying values as determined under Canadian GAAP for transitional purposes.*

c) **Mandatorily applicable standards with retrospective application (i.e., not specifically exempt under IFRS - 1)**

**Deferred mineral exploration costs**

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

**IFRS:** 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.

*Impact on Company: The Company decided to change its accounting policy to retrospectively expense all pre feasibility exploration and evaluation costs. The Company estimates the resulting adjustment would result in a decrease of approximately \$806,000 to the deferred exploration assets and increase to deficit by the same amount.*

**Property, plant and equipment – cost**

**IFRS:** IAS 16 contains more extensive guidance with respect to components within PP&E. When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). **Canadian GAAP:** Section 3061 essentially contains similar guidance but is less extensive.

*Impact on Company: The Company has determined that there is no impact upon transition as at January 1, 2010.*

**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.

*Impact on Company: The Company has reviewed the IAS 39 methodology and estimates that as of January 1, 2010 approximately \$210,000 of the transaction costs out of a total of \$385,000 would be presented as an offset to the loan liability and the deficit at January 1, 2010 would be reduced by a corresponding amount.*

#### **Provision for environmental rehabilitation**

IFRS – IFRS 37 applies to a constructive obligation, where the event creates valid expectations that the entity will discharge the obligation, as well as a legal obligation. The amount recognized should be the best estimate of the expenditure required to settle the obligation at the balance sheet date. Present value should be used where the effect of the time value of money is material. The discount rate (or rates) utilized should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

*Impact on the Company: The Company has determined that there is no transitional impact.*

#### **Functional currency**

The Company uses the US \$ as its functional currency and US \$ as its reporting currency. IAS 21 contains a more comprehensive framework for the determination of functional currency.

*Impact on Company: The Company has determined that there is no material impact.*

#### **Share based compensation**

IFRS: Under IFRS 2, graded vesting awards must be accounted for as though each installment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis. Canadian GAAP: Straight line basis is permissible under Canadian GAAP.

*Impact on Company: The Company has recognized option expense on a graded basis that is consistent with the IFRS 2 amortization methodology; as such the Company has determined that there is no transitional impact at January 1, 2010*

#### **Impact on systems and processes**

The Company does not expect that adoption of IFRS will have a pervasive impact on its present systems and processes. The Company expects to implement certain minor changes to the general ledger account descriptions as well as the calculation methodologies currently in use for certain specific financial statement areas such as asset impairment, share based compensation etc.

#### **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.

*Impact on Company: As a result of this difference the Company estimates an increase in liability and a decrease in deficit in the amount \$431,000 as at January 1, 2010.*

#### **Subsequent Disclosures:**

The Company's first financial statements prepared in accordance with IFRS will be the interim consolidated financial statements for the three months ending March 31, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending March 31, 2011, will also include 2010 consolidated financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position at January 1, 2010.

#### **Off-balance sheet arrangements**

The Company had no off balance sheet arrangements as at December 31, 2010 or December 31, 2009.

#### **Financial instruments**

The Company's excess cash reserves are held in cash equivalents. The Company had no other financial instruments other than accounts receivable, accounts payable, leases payable and amounts due to and from related parties as at December 31, 2010 or December 31, 2009.

#### **Outstanding share data**

##### *Common Shares:*

The Company has authorized an unlimited number of common shares, with no par value, of which 105,167,491 shares are issued and outstanding as of the date hereof. The Company has 254,414 Series 1 Convertible Redeemable Preference shares that 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.

##### *Share Purchase Warrants:*

As of the date hereof, 12,669,502 share purchase warrants were issued are outstanding.

##### *Stock Options:*

As of the date hereof, 2,566,000 options were outstanding under the Company's stock option plan for employees, directors, officers and consultants of the Company these options have an exercise price between C\$0.11 - C\$0.35.

## **Proposed transactions**

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

## **Outlook**

Management of the Company plans the following activities in 2010 to increase liquidity, repay debt and generate the capital necessary to continue the development of the Sutter Gold Mine.

Short term the Company has agreed with RMB Australia Holdings Limited to extend the maturity date of its secured loan facility to June 30, 2011 and increase the loan limit to \$7,900,000 in order to complete a detailed mine development plan and production/grade schedule for technical reporting as defined by NI 43-101.

Upon completion of the NI 43-101 technical study the Company plans to raise sufficient funds through either additional debt financing, the sale of equity investments or attracting an industry partner to provide sufficient capital to construct a mill and complete mine development in anticipation of putting the mine into production. The Company has begun negotiations with its current lender to secure long term construction financing.

Management believes that if it is successful in these endeavors and the project is financially justified that the mill and mine could be in production within 12 - 18 months of financing. The spot and long-term price for gold is volatile. These price fluctuations are a risk to the economic performance of the property. There is no assurance that the plans will be accomplished.

## **Risks and Uncertainties**

The success of the Company will depend on numerous factors, including availability of development and construction capital; the spot price of gold; preparation and execution of an underground development and mining plan which produces the amounts and grades of ore targeted by the plan; construction of a mill which recovers the percentages of gold estimated by the Company; ongoing delineation of sufficient ore reserves in addition to current estimates to sustain mining operations; absence of delays due to unanticipated underground engineering or production problems, and other factors such as environmental and permitting delays. There is no assurance of favorable determinations of such factors. An unfavorable determination of any one of such factors could significantly delay operations and impair the chances of success for the Company.

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

The Company competes with larger and better financed companies for exploration personnel, contractors and equipment. Increased exploration activity has increased demand for capital, equipment and services. There can be no assurance that the Company can obtain required capital, equipment and services in a timely or cost effective manner.

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

## **Disclaimer**

The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents file on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

## **Forward Looking Statements**

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

Forward-looking statements used in this discussion are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond the control of the Company. If risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Forward looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- The Company notes that if the project is financially justified that the mill and mine could be in production within 12 - 18 months of financing in the outlook section.
- The Company is currently preparing a mine development and production/grace schedule for a feasibility study.
- The Company summarizes possible future finance activities in the outlook section.