SUTTER GOLD MINING INC.

Consolidated Financial Statements

March 31, 2010

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF

INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indication that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

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

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SUTTER GOLD MINING INC.
CONSOLIDATED BALANCE SHEETS
(Expressed in US Dollars)

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 442,900	$ 656,600
Accounts receivable	11,700	13,200
Prepaid expenses	71,700	16,200
Total current assets	526,300	686,000
RECLAMATION BOND (Note 3)	27,000	27,000
MINERAL PROPERTIES (Note 5)	806,300	806,300
PROPERTY AND EQUIPMENT (Note 4)	574,700	564,000
	$ 1,934,300	$ 2,083,300
CURRENT LIABILITIES		
Accounts payable	$128,200	$ 151,300
Due to related parties (Note 6)	109,000	-
Leases payable	67,000	67,000
Note payable (Note 6 and 7)	2,667,300	2,178,600
Total current liabilities	2,971,500	2,396,900
RECLAMATION LIABILITY (Note 3)	23,300	23,300
	2,994,800	2,420,200
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Common shares (Note 8)	23,945,500	23,945,500
Preference shares (Note 8)	211,200	211,200
Contributed surplus (Note 8)	6,752,900	6,724,800
Deficit	(31,970,100)	(31,218,400)
Total Shareholders' (deficiency) equity	(1,060,500)	(336,900)
	$ 1,934,300	$ 2,083,300

Continuing operations (Note 1)
Contingencies (Note 12)

Approved by the Board of Directors

"James Crombie" Director

"Mark T Brown" Director

SUTTER GOLD MINING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the Three Months Ended March 31,

(Expressed in US Dollars)

(Unaudited)

	2010	2009
OPERATING REVENUES		
Lease revenue	$ 6,800	$ 3,600
	6,800	3,600
OPERATING COSTS AND EXPENSES		
Cost of tourism operations	-	100
Depreciation	16,600	11,300
Investor relations	10,600	7,200
Management fees (Note 6)	-	4,400
Mine and property holding costs	81,500	43,800
Office & miscellaneous	65,100	55,600
Permits & lease payments	1,300	1,300
Feasibility study	259,500	257,300
Professional & contract services (Note 6)	44,000	41,200
Rent & electricity	15,900	8,300
Stock-based compensation	28,100	31,800
Transfer & listing fees	9,200	8,800
Travel & entertainment	9,600	12,000
Wages & benefits	170,900	197,800
	712,300	680,900
OPERATING LOSS	(705,500)	(677,300)
OTHER INCOME AND (EXPENSES)		
Loss on foreign exchange	(400)	(700)
Interest income	300	1,800
Interest expense	(46,100)	(100)
	(46,200)	1,000
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(751,700)	(676,300)
DEFICIT, BEGINNING OF PERIOD	(31,218,400)	(27,869,200)
DEFICIT, END OF PERIOD	(31,970,100)	(28,545,500)
NET LOSS PER SHARE	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	102,475,427	102,475,427

SUTTER GOLD MINING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31,

(Expressed in US Dollars)

(Unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (751,700)	$ (676,300)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	16,600	11,300
Stock-based compensation	28,100	31,800
Net changes in components of working capital:		
Accounts receivable	1,500	4,600
Prepaid expenses	(55,500)	(71,200)
Accounts payable	85,900	106,400
Due to/from related parties	-	(600)
NET CASH USED IN OPERATING ACTIVITIES	(675,100)	(594,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of properties and equipment	(27,300)	(40,600)
NET CASH USED IN INVESTING ACTIVITIES	(27,300)	(40,600)
CASH FLOWS FROM FINANCING ACTIVITES		
Proceeds from promissory notes	488,700	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	488,700	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(213,700)	(634,600)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	656,600	1,716,200
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 442,900	$ 1,081,600

Cash and cash equivalents consist of

	2010	2009
Cash	$ 422,900	$ 1,061,600
Cash equivalents	20,000	20,000
	$ 442,900	$ 1,081,600

Supplemental disclosure of cash flow information (Note 9)

SUTTER GOLD MINING INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Expressed in US Dollars)

(Unaudited)

	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)
Stock-based compensation (Note 8)	-	-	-	-	28,100	-	28,100
Net loss	-	-	-	-	-	(751,700)	(751,700)
Balance, March 31, 2010	254,414	$ 211,200	103,872,038	$ 23,945,500	6,752,900	$(31,970,100)	$(1,060,500)

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

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. Approximately 97% of SGMC's shareholders tendered their shares for 43,180,757 common shares of the Company as of March 31, 2010. The Company has allotted another 1,396,610 common shares for the other 3% of 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. As of March 31, 2010, RMB owned 51,832,120 (49.9%) 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 $31,970,100 as of March 31, 2010 (March 31, 2009 - $28,545,500). 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 a result of entering into the loan facility, the Company has a working capital deficiency as at March 31, 2010 of $2,445,200 (working capital as of March 31, 2009 - $870,200).
Also see note 7 and note 11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Interim financial statements

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of application as the annual financial statements. These interim consolidated financial statements do not include in all respects the annual disclosure requirements of generally accepted accounting principles and should be read in conjunction with the most recent annual statements.

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

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.

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 which exceed federally insured limits. At March 31, 2010, the Company had its cash and cash equivalents with two financial institutions. 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

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

upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. (See "Changes in accounting policies - *Deferred exploration costs"*)

Cost of maintaining mineral properties

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

Property and equipment

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

Transaction costs

Transaction costs related to the financial instruments classified as held for trading are recognized immediately into income. For financial instruments classified as other than as held for trading transaction costs are added to the financial instrument.

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 March 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

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

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 accounted for its stock options granted to its employees and non-employees using a fair value based method that is recommended by the Canadian generally accepted accounting principles (CICA Handbook Section 3870, stock-based compensation and other stock-based payments).

Under this standard, payments to non-employees and to employees that are direct awards of stock, that call for settlement in cash or other assets, or that are stock appreciation rights which call for settlement by the issuance of equity instruments, are accounted for using the fair value method and are included in operations, with an offset to contributed surplus.

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 consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

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.

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

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.

Comparative figures

Certain of the prior year's figures have been reclassified in conformity with the current year's financial statement presentation.

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.

IFRS Convergence

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises. This will result in the Company reporting under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP. The Company expects the transition to IFRS to impact accounting policies, financing reporting, IT systems and processes, as well as certain business activities.

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 March 31, 2010 (March 31, 2009 - $27,000).

4. PROPERTY AND EQUIPMENT

	March 31, 2010			December 31, 2009
	Cost	Accumulated depreciation	Net book value	Net book value
Land improvements	$ 175,100	$ 6,300	$ 168,800	$ 168,800
Buildings	316,400	219,000	97,400	83,700
Equipment and vehicles	659,400	350,900	308,500	311,500
	$ 1,150,900	$ 576,200	$ 574,700	$ 564,000

5. MINERAL PROPERTIES

Mining Claims Expenditures

	December 31, 2008	Net Additions	December 31, 2009	Net Additions	March 31, 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 the total amount of $4.6 million is repaid, and a 1% NPIR thereafter.

Sutter Gold Project - 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 $29,900.

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

5. MINERAL PROPERTIES (cont'd)

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 March 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
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 C$500,000 in payments and C$100,000 in work commitments.

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. Annual payments to The Alamo Group for the next four years as follows:

February 7, 2008 - C$50,000 (paid);
February 7, 2009 - C$75,000 (paid);
February 7, 2010 - C$100,000 (Paid);
February 7, 2011 - the balance of the C$500,000 purchase price, C$210,000, due in cash.

5. MINERAL PROPERTIES (cont'd)

The Alamo Group can waive its right to receive shares in favor of cash.

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 over four years (total of C$500,000; 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.

6. TRANSACTIONS WITH RELATED PARTIES

On August 12, 2009 the Company closed a secured loan facility in the amount of $4,250,000 with RMB Australia Holdings Limited. RMB Australia Holdings Limited and RMB are both members of the FirstRand Group. As of March 31, 2010, RMB owned 51,832,120 (49.9%) of the outstanding shares of the Company. See Note 7. During 2010, the Company paid $46,100 in interest (2009- Nil) on this loan facility.

During the period ended March 31, 2010, the Company incurred no expenses (2009 – C$16,800) for administrative and secretarial fees to a private company controlled by a director. there was no amount owing to this company as at March 31, 2010 (March 31, 2009 – C$3,700) for the unpaid portion of these amounts.

Effective June 1, 1996, SGMC entered into a Management Agreement with USE, a former partner of the Company, whereby a joint venture between the companies, USECB Joint Venture ("USECB"), serves as the manager of the Company's mine development and exploration activities, among other duties, and provides administrative staff and services to the Company. Under the terms of the Management Agreement, USECB is reimbursed for actual costs incurred plus, initially, 10% of allowable costs as defined in the Management Agreement. USECB invoiced nothing to SGMC for the periods ended March 31, 2010, and 2009. Notice of termination was provided in November 2009.

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

As indicated in Note 6, 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. The Loan Facility will be for the purpose of funding agreed development activities at the Lincoln Project in

7. LOAN FACILITY (cont'd)

California and corporate expenditures. 7.5% of the Loan Facility amount was paid to the Lender in cash upon execution of the Facility Agreement. The Facility will be available for drawing from the closing date of August 11, 2009 to August 1, 2010. Transaction fees in the amount of $385,000 were expensed during 2009.

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 March 31, 2010 was 0.25%.

The loan matures on August 31, 2010 and is secured by substantially all of the assets of the Company.

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.

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. All securities issued under the private placement were subject to a four-month hold period and expired on December 22, 2008. The share issue costs totalled $25,600.

Series 1 Convertible Redeemable Preference shares	Number of Shares	Amount
Balance, March 31, 2010 and March 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
Balance outstanding, March 31, 2010	12,794,994	0.15

As at March 31, 2010, 12,794,994 warrants were outstanding at an exercise price of C$0.15, expiring on August 22, 2010.

8. SHARE CAPITAL (cont'd)

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
Balance outstanding March 31, 2010	4,476,000	0.15

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

Number	Exercise Price C$	Expiry Date
460,000	0.28	April 8, 2010*
200,000	0.30	April 20, 2011
305,000	0.35	August 16, 2011
1,200,000	0.11	October 6, 2013
250,000	0.11	January 29, 2014
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
4,476,000		

*Subsequently, these options expired without being exercised.

The weighted-average remaining life of options outstanding as at March 31, 2010 was 3.14 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 March 31, 2010 totaled $28,100 (2009 - $31,800).

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

9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2009	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest income	$ 300	$ 1,800
Interest paid	$ (46,100)	$ (100)

10. FINANCIAL INSTRUMENTS

The Company designated its cash and cash equivalents 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. Marketable securities are classified as available-for-sale which are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

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:

		March 31, 2010		December 31, 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	$ 442,900	$ -	$ 656,600	$ -
Accounts receivable		-	11,700	-	13,200
Accounts payable		-	128,200	-	151,300
Due to related parties		-	-	-	-
Lease payable		-	67,000	-	67,000
Note payable			2,667,300		2,178,600
Reclamation liability		-	23,300	-	23,300
		$ 442,900	$ 2,897,400	$ 656,600	$ 2,433,400

10. FINANCIAL INSTRUMENTS (cont'd)

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 foreign functional currencies. 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 March 31, 2010 are not material to the Company's financial statements.

(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 has not presented a sensitivity analysis table as the interest rate risk at March 31, 2010 is not material to the Company's financial statements.

11. 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

11. MANAGEMENT OF CAPITAL RISK (cont'd)

capital structure, the Company may attempt to issue new shares, issue 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.

12. 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 $900,000 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.