SUTTER GOLD MINING INC.

Consolidated Financial Statements

December 31, 2008
and
December 31, 2007

(Expressed in US Dollars unless otherwise noted)

DE VISSER GRAY LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Sutter Gold Mining Inc.,

We have audited the consolidated balance sheets of Sutter Gold Mining Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive and other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

De Visser Gray LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
February 23, 2009

SUTTER GOLD MINING INC.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31

(Expressed in US Dollars)

	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	$ 1,716,200	$ 26,300
Accounts receivable	10,700	57,900
Prepaid expenses	4,500	2,600
Marketable securities (Note 6)	-	244,700
Due from related party (Note 7)	-	247,600
Total current assets	1,731,400	579,100
RECLAMATION BOND (Note 3)	27,000	27,000
MINERAL PROPERTIES (Note 5)	806,300	806,300
PROPERTY AND EQUIPMENT (NET) (Note 4)	542,400	527,700
	$ 3,107,100	$ 1,940,100
CURRENT LIABILITIES		
Accounts payable	$ 117,200	$ 74,400
Due to related parties (Note 7)	3,200	5,800
Leases payable	67,000	67,000
Total current liabilities	187,400	147,200
RECLAMATION LIABILITY (Note 3)	23,300	23,300
	210,700	170,500
SHAREHOLDERS' EQUITY		
Accumulated other comprehensive income	-	47,100
Deficit	(27,869,200)	(26,315,300)
	(27,869,200)	(26,268,200)
Common shares (Note 8)	23,945,500	22,015,300
Preference shares (Note 8)	211,200	211,200
Contributed surplus (Note 8)	6,608,900	5,811,300
Total Shareholders' equity	2,896,400	1,769,600
	$ 3,107,100	$ 1,940,100

Continuing operations (Note 1)
Contingencies (Note 13)

Approved by the Board of Directors

"A. Clayr Alexander" Director   *"Mark T Brown"* Director

The accompanying notes to consolidated financial statements are an integral part of these statements.

SUTTER GOLD MINING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

(Expressed in US Dollars)

	2008	2007
REVENUES		
Lease revenue	$ 36,100	$ 37,100
Equipment rental	4,700	4,600
	40,800	41,700
OPERATING COSTS AND EXPENSES		
Cost of tourism operations	4,300	4,400
Depreciation	41,400	52,500
Exploration of mining properties	3,000	955,100
Feasibility study	120,600	-
Investor relations	15,300	43,600
Management fees (Note 7)	103,700	30,500
Mine and property holding costs	133,400	164,700
Office & miscellaneous	109,800	122,300
Permits & lease payments	4,400	39,500
Professional & contract services (Note 7)	230,300	410,800
Rent & electricity	22,600	12,800
Stock-based compensation	85,100	68,700
Transfer & listing fees	39,500	26,900
Travel & entertainment	24,000	38,600
Wages & benefits	340,100	277,100
	1,277,500	2,247,500
OPERATING LOSS	(1,236,700)	(2,205,800)
OTHER INCOME AND (EXPENSES)		
Dividends	-	17,500
Gain (Loss) on foreign exchange	(369,200)	41,400
Gain on sale of marketable securities (Note 6)	24,300	428,300
Gain on optioned property (Note 5)	22,200	126,600
Interest income	5,600	17,200
Interest expense	(2,600)	(12,700)
Other	3,900	-
Write off of assets	(1,400)	-
	(317,200)	618,300
NET LOSS	(1,553,900)	(1,587,500)
DEFICIT, BEGINNING OF THE YEAR	(26,315,300)	(24,727,800)
DEFICIT, END OF THE YEAR	$ (27,869,200)	$ (26,315,300)
NET LOSS PER SHARE	$ (0.02)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	86,044,694	75,659,176

The accompanying notes to consolidated financial statements are an integral part of these statements.

SUTTER GOLD MINING INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31

(Expressed in US Dollars)

		2008		2007
Net loss for the year	$	(1,553,900)	$	(1,587,500)
Other comprehensive income - unrealized gain on marketable securities		-		47,100
Comprehensive loss for the year	$	(1,553,900)	$	(1,540,400)
Accumulated other comprehensive income, beginning of the year	$	47,100	$	575,750
Sale of marketable securities		(47,100)		(575,750)
Other comprehensive income for the year		-		47,100
Accumulated other comprehensive income, end of the year	$	-	$	47,100

The accompanying notes to consolidated financial statements are an integral part of these statements.

SUTTER GOLD MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in US Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,553,900)	$ (1,587,500)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	41,400	52,500
Stock-based compensation	85,100	68,700
Gain on sale of marketable securities	(24,300)	(428,300)
Gain on optioned property	-	(126,600)
Foreign exchange loss (gain)	4,900	-
Write-off of assets	1,400	-
Net changes in components of working capital:		
Accounts receivable	47,200	(43,200)
Prepaid expenses	(1,900)	(2,600)
Accounts payable	42,800	(205,800)
Due to/from related parties	245,000	(248,400)
NET CASH USED IN OPERATING ACTIVITIES	(1,112,300)	(2,521,200)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of properties and equipment	(57,300)	(2,400)
Mineral properties	-	(55,000)
NET CASH USED IN INVESTING ACTIVITIES	(57,300)	(57,400)
CASH FLOWS FROM FINANCING ACTIVITES		
Shares issued for cash (net of share issue costs)	2,642,700	2,400
Proceeds from sale of marketable securities	216,800	983,300
Reclamation liability	-	900
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,859,500	986,600
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,689,900	(1,592,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	26,300	1,618,300
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 1,716,200	$ 26,300

Supplemental disclosure of cash flow information (Note 9)

The accompanying notes to consolidated financial statements are an integral part of these statements.

SUTTER GOLD MINING INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

(Expressed in US Dollars)

	Number of Preferred Shares	Preference Shares	Number of Common Shares	Share Capital	Contributed Surplus	Other Comprehensive Income	Deficit	Total Shareholders' Equity
Allotted, issued and outstanding:								
Balance, December 31, 2006	254,414	$ 211,200	70,534,066*	$ 19,951,700	$ 1,099,500	$ -	$ (24,727,800)	$ (3,465,400)
Issued for property acquisition (Note 8a)	-	-	111,111	33,700	-	-	-	33,700
Options exercised (Note 8b)	-	-	15,000	2,400	-	-	-	2,400
Fair value of options exercised (Note 8b)	-	-	-	1,800	(1,800)	-	-	-
Shares issued for debt settlement (Note 8c)	-	-	7,621,868	2,025,700	-	-	-	2,025,700
Contingent stock purchase warrant (Note 8d)	-	-	-	-	4,644,900	-	-	4,644,900
Stock-based compensation	-	-	-	-	68,700	-	-	68,700
Fair value of marketable securities	-	-	-	-	-	47,100	-	47,100
Net loss							(1,587,500)	(1,587,500)
Balance, December 31, 2007	254,414	211,200	78,282,045	22,015,300	5,811,300	47,100	(26,315,300)	1,769,600
Issued for private placement (Note 8e)	-	-	25,589,993	1,955,800	712,500	-	-	2,668,300
Share issue costs (Note 8e)	-	-	-	(25,600)	-	-	-	(25,600)
Stock-based compensation	-	-	-	-	85,100	-	-	85,100
Sale of marketable securities	-	-	-	-	-	(47,100)	-	(47,100)
Net loss	-	-	-	-	-	-	(1,553,900)	(1,553,900)
Balance, December 31, 2008	254,414	$ 211,200	103,872,038	$ 23,945,500	$ 6,608,900	$ -	$ (27,869,200)	$ 2,896,400

**Included in this amount originally were 1,787,847 (as at December 31, 2007 and December 31, 2008: 1,396,610) 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.*

The accompanying notes to consolidated financial statements are an integral part of these statements.

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 and development 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 December 31, 2008. 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.

SGMC was established to conduct operations on surface and mineral rights owned in fee or leased 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 from U.S. Energy Corp. ("USE") for an aggregate purchase price of C$5,400,000. As of December 31, 2008, 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 have resulted in an accumulated deficit of $27,869,200 as of December 31, 2008 (2007 - $26,315,300). The Company's working capital as of December 31, 2008 was $1,544,000 (2007 - $431,900).

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. All material intercompany profits, transactions and balances have been eliminated.

Reclassifications

Certain reclassifications have been made in the financial statements for the years ended December 31, 2007 to conform to accounting and financial statement presentation for the year ended December 31, 2008.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts which exceed federally insured limits. At December 31, 2008, the Company had its cash and cash

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

equivalents with two financial institutions. 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 Canadian operation is considered to be an integrated operation with foreign currency transactions 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.

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.

Administrative costs are expensed as incurred.

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, buildings, improvements, machinery and equipment 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.

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

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, 2008, the Company did 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.

Stock-based compensation

The Company accounts 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.

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 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 lower of the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares or the date of their issuance.

Earnings (Loss) Per Share

Earnings (loss) per share data are computed by dividing net income (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 period's figures have been reclassified in conformity with the current period's financial statement presentation.

Changes in accounting policies

On January 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

(a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (see Note 11).

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

Changes in accounting policies, (cont'd)

(b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (see Note 11).

(c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 12). Under this standard, the Company will be required to disclose the following:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

(d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity's ability to continue as a going concern (see Note 1).

Future Accounting changes

In February 2008, the CICA issued CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaces CICA Handbook Section 3062, "Goodwill and Other Intangible Assets" as well as CICA Handbook Section 3450, "Research and Development". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As this standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the Company will adopt this new standard effective January 1, 2009 (the first day of the Company's 2009 fiscal year) retrospectively with a restatement of prior periods. Implementation of this new standard is not expected to have a material impact on the Company's financial statements and disclosures.

IFRS convergence

In February 2008, the CICA announced that Canadian 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 has 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 commenced the scoping phase of the project, which consists of project initiation and awareness, identification of high-level differences between Canadian GAAP and IFRS and project

(Expressed in US Dollars unless otherwise noted)

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

IFRS convergence, (cont'd)

planning and resourcing. The Company has completed a high level scoping exercise and has prepared a preliminary comparison of financial statement areas that will be impacted by the conversion.

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 has not been completed. 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 Company has not completed its quantification of the effects of adopting IFRS. The financial performance and financial position as disclosed in our Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

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, 2008 (2007 - $27,000).

4. PROPERTY AND EQUIPMENT

	2008			2007
	Cost	Accumulated depreciation	Net book value	Net book value
Land improvement	$ 175,100	$ 6,300	$ 168,800	$ 175,100
Buildings	288,800	210,800	78,000	89,500
Equipment and vehicles	588,900	293,300	295,600	263,100
	$ 1,052,800	$ 510,400	$ 542,400	$ 527,700

5. MINERAL PROPERTIES

Mining Claims Expenditures

	2006	Net Additions	2007	Net Additions	2008
Lincoln and Comet Project					
Underground drilling	$ 788,600	$ 17,700	$ 806,300	$ -	$806,300

5. MINERAL PROPERTIES, (cont'd)

USE has a Net Profits Interest royalty ("NPIR") of 5% on substantially all of the Company's California properties until the total amount of $4.6 million is repaid, and a 1% NPIR thereafter (Note 8d).

Sutter Gold Project - Lincoln and Comet Properties

The Sutter gold project is situated on a contiguous 535-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. Total annual lease payments inclusive of payments for surface rights aggregating $13,900 are currently $24,800.

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, respectively: $1,200 and $2,400 for each of years one to ten; $2,400 and $4,800 for each of years eleven through twenty; $3,600 and $7,200 for each of years twenty one through thirty; and $4,800 and $9,600 for each year thereafter. 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, which 0.5% interest covers the properties in the Lincoln Project. All payments have been made up to date.

Eureka Property

On January 21, 2005, the Company entered into a lease agreement to acquire 105 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 of $2,400 for each of years one to ten, $3,600 for each of years eleven to twenty, $4,800 for each of years twenty-one to thirty, and $6,000 for each year after the year thirty-one. As of December 31, 2008, 12,000 common shares had been issued to the Eureka Property's owner for the first year's payment and the second through fifth years' payments have been made up to date.

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.

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.

(Expressed in US Dollars unless otherwise noted)

5. MINERAL PROPERTIES, (cont'd)

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 (Note 8a). 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 (C$35,000 payable in cash and C$40,000 in common shares);
February 7, 2010 - C$100,000 (C$50,000 payable in cash and C$50,000 in common shares)
February 7, 2011 - the balance of the C$500,000 purchase price, C$220,000, due in cash.

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 Limited ("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 during the comparative year) 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; $72,200 was reimbursed to date resulting in $22,200 being recorded as a gain on the optioned property during the fiscal 2008). 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. MARKETABLE SECURITIES

As of December 31, 2008, the Company did not own any marketable securities and as of December 31, 2007 the Company's marketable securities consisted of Premier Gold Mines Limited ("Premier") shares, which were carried at their market values:

	Number of Shares		Fair Value at	
	2007	2008	2007	2008
Common shares of Premier	100,000	-	$ 244,700	$ -

7. TRANSACTIONS WITH RELATED PARTIES

During 2008, the Company incurred C$74,000 (2007 – C$65,300) for accounting, administrative and secretarial fees to a private company controlled by a director. $2,100 was owed to this company as at December 31, 2008 (2007 - $5,800) for the unpaid portion of these amounts.

During 2008, the Company paid $100,000 (2007 – $Nil) of management fees to the former president of the Company.

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 SGMC $40,300 and $378,900 for 2008 and 2007, respectively, which included general administration costs, note payments, lease payments and other costs. The Company owed $1,100 to this company as at December 31, 2008 (2007 - $Nil) for the unpaid portion of these amounts.

The Management Agreement may be terminated by the Company at any time with one month's advance notice to USECB.

On May 3, 2007, the Company settled its outstanding debt of $2,025,700 (C$2,362,800) with USE, its former parent company, by the issuance of 7,621,868 common shares of the Company at C$0.31 per share (Note 8c).

On May 3, 2007, the Company also settled the Contingent Stock Purchase Warrant with USE by the issuance of a Net Profits Interest royalty (Note 8d).

USE agreed during fiscal 2007 to provide a $1,000,000 line of credit to the Company at 12% annual interest, drawable and repayable at anytime in tranches of $50,000 or more by the Company. The line of credit becomes due no later than two years from June 20, 2007. It was collateralized by the Company's California properties. USE had the sole option to have the Company repay the debt in cash or the Company's common shares at a 10% discount to the 10 day volume weighted average price ("VWAP") before payment (subject to the TSX Venture Exchange approval). Terms of the credit agreement were negotiated and approved by the independent directors of USE and the Company. As of December 21, 2007, USE had loaned $723,300 to the Company, with an accrued interest of $12,000, totalling $735,400. On December 21, 2007, the Company settled the outstanding debt by delivering 225,000 shares of USE common stock it owned that were valued at the last 5 days VWAP for $4.37 and totalling $983,000, of which $735,300 was used to settle the line of credit. During the year ended December 31, 2008, USE repaid the Company $247,600 which was owed at the end of 2007.

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.

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.

(Expressed in US Dollars unless otherwise noted)

8. SHARE CAPITAL, (cont'd)

a. On February 9, 2007, 111,111 common shares at a price of C$0.36 per share were issued for the Mexican Property acquisition (Note 5).

b. During the year ended December 31, 2007, 15,000 options at a price of C$0.20 per share were exercised. A fair value of $1,800 was recognized on these exercised stock options.

c. During the year ended December 31, 2007, the Company settled its outstanding debt of $2,025,700 (C$2,362,800) with USE by the issuance of 7,621,868 common shares of the Company at C$0.31 per share (Note 7).

d. On May 3, 2007, the Company settled the Contingent Stock Purchase Warrant with USE by the issuance of a Net Profits Interest royalty ("NPIR") of 5% on substantially all of the Company's California properties until the total amount of $4.6 million is repaid, and granting a 1% NPIR thereafter. NPIR is defined as the price received from the sale of gold or other mineralized product that is mined, saved and sold, less mining, milling, processing or refining and transportation costs and allowable taxes and royalties, but excluding development costs incurred prior to December 31, 2006. As of December 31, 2007, the settlement of $4,644,900 contingent stock purchase warrant was reclassified as contributed surplus.

e. 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 $2,668,300 (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 $712,500 was assigned to these warrants using Black-Scholes model. The share issue costs totalled $25,600.

Series 1 Convertible Redeemable Preference shares

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, 2006	17,276,960	0.33
Warrants expired	(964,960)	0.25
Balance outstanding, December 31, 2007	16,312,000	0.34
Warrants issued	12,794,994	0.15
Warrants expired	(16,312,000)	0.34
Balance outstanding, December 31, 2008	12,794,994	0.15

As at December 31, 2008, 12,794,994 warrants were outstanding at an exercise price of C$0.15 expiring on or before August 22, 2010.

(Expressed in US Dollars unless otherwise noted)

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, 2006	5,490,000	0.31
Options granted	700,000	0.28
Options exercised	(15,000)	0.20
Options expired/cancelled	(860,000)	0.31
Balance outstanding, December 31, 2007	5,315,000	0.30
Options expired/cancelled	(1,490,000)	0.29
Options granted	2,200,000	0.11
Balance outstanding, December 31, 2008	6,025,000	0.23

As at December 31, 2008 the following options were outstanding:

Number	Exercise Price C$	Expiry Date
2,310,000	0.28	April 8, 2010
200,000	0.30	April 20, 2011
1,315,000	0.35	August 16, 2011
2,200,000	0.11	October 6, 2013
6,025,000		

The weighted-average remaining life of options outstanding as at December 31, 2008 was 2.88 years (2007 – 2.47 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 2008 totaled $85,100 (2007 - $68,700).

There were 2,200,000 options granted during 2008 (2007 - 700,000). The following weighted average assumptions were used for the Black-Scholes method of valuation of stock options granted during fiscal 2008 and 2007:

	2008	2007
Risk-free interest rate	2.80%	4.59%
Annualized volatility	87%	108%
Expected dividend yield	Nil	Nil
Expected option life in years	5 years	2 years

(Expressed in US Dollars unless otherwise noted)

9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

		2008		2007
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest income	$	5,600	$	17,200
Interest paid	$	2,600	$	12,700
NON CASH INVESTING AND FINANCING ACTIVITIES				
Common shares issued for property payment (Note 5)	$	-	$	33,700
Common shares issued for debt settlement (Note 7)	$	-	$	2,025,700
Common shares received for mineral properties (Note 5)	$	-	$	197,600

10. INCOME TAXES

The Company had no income taxes payable at December 31, 2008 and 2007.

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

		2008		2007
Net Loss	$	(1,553,900)	$	(1,587,500)
Effective Statutory Rate		37.51%		42.59%
Expected tax expense		(582,800)		(676,100)
Net effect of non-deductible amounts		(26,900)		(60,000)
Unrecognized benefit of non-capital losses		555,900		736,100
	$	-	$	-

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, 2008 and 2007 are as follows:

		2008		2007
Non capital loss carry-forwards	$	13,437,900	$	12,114,000
Deferred cost pools		(806,300)		755,400
Tax basis differences in property and equipment		(4,900)		34,800
Total		12,626,700		12,904,200
Statutory rate		40.85%		42.59%
Potential future income tax assets		5,158,000		5,495,900
Valuation allowance		(5,158,000)		(5,495,900)
	$	-	$	-

(Expressed in US Dollars unless otherwise noted)

10. INCOME TAXES, (cont'd)

Non capital losses are available to reduce taxable income in Canada and the United States and expire in stages to 2028 as follows:

	2008	2007
2016	789,000	789,000
2017	1,593,000	1,593,000
2018	1,836,000	1,836,000
2019	1,496,000	1,496,000
2020	603,000	603,000
2021	265,000	265,000
2023	564,000	564,000
2024	723,000	723,000
2025	1,090,000	1,090,000
2026	1,855,000	1,855,000
2027	1,386,000	1,386,000
2028	1,385,000	-
	$ 13,585,000	$ 12,200,000

11. 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 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.

The Company had no "other comprehensive income" during the year ended December 31, 2008.

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.

(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.

11. FINANCIAL INSTRUMENTS (cont'd)

(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.

12. MANAGEMENT OF CAPITAL RISK

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (Note 8). 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, 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 exploration plans and operations through its current operating period.

13. CONTINGENT LIABILITIES

The Company has entered into employment agreements with two officers pursuant to which it could become liable to pay cash bonuses aggregating up to $1 million 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

13. CONTINGENT LIABILITIES (cont'd)

of these agreements, the Company would be obligated to pay an aggregate of $840,000 to these officers in the event that their employment is terminated without cause.