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# **SUTTER GOLD MINING INC.**

## **Unaudited Condensed Interim Consolidated Financial Statements**

**March 31, 2016 and 2015**

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*(Expressed in US Dollars unless otherwise noted)*

## NOTICE OF NO AUDITOR'S REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Sutter Gold Mining Inc. have been prepared by, and are the responsibility of the Company's management. The Company's independent auditor has not performed an audit or a review of these unaudited condensed interim consolidated financial statements

**Sutter Gold Mining Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**

(Expressed in US Dollars)

(Unaudited)

|                                                       |              | As at<br>March 31,<br>2015 | As at<br>December 31,<br>2015 |
|-------------------------------------------------------|--------------|----------------------------|-------------------------------|
|                                                       | <i>Notes</i> |                            |                               |
| <b>Assets</b>                                         |              |                            |                               |
| <b>Current assets</b>                                 |              |                            |                               |
| Cash                                                  |              | \$ 179,400                 | \$ 176,200                    |
| Accounts receivable                                   |              | 3,300                      | 600                           |
| Prepaid expenses                                      |              | 19,700                     | 31,400                        |
|                                                       |              | 202,400                    | 208,200                       |
| <b>Non-current assets</b>                             |              |                            |                               |
| Restricted investments                                | 7            | 40,600                     | 40,500                        |
| Mine under development                                | 5            | 23,978,000                 | 24,009,700                    |
|                                                       |              | 24,018,600                 | 24,050,200                    |
| <b>Total assets,</b>                                  |              | <b>\$ 24,221,000</b>       | <b>\$ 24,258,400</b>          |
| <b>Liabilities and Shareholders' Deficiency</b>       |              |                            |                               |
| <b>Current liabilities</b>                            |              |                            |                               |
| Accounts payable and accrued liabilities              | 8, 16        | \$ 172,500                 | \$ 178,000                    |
| Accrued interest                                      |              | 5,130,700                  | 4,468,900                     |
| Current portion of notes payable                      | 9            | 22,115,200                 | 20,478,400                    |
|                                                       |              | 27,418,400                 | 25,125,300                    |
| <b>Non-current liabilities</b>                        |              |                            |                               |
| Reclamation liability                                 | 7            | 31,600                     | 31,600                        |
| Long-term notes payable                               | 9            | 20,414,300                 | 21,603,800                    |
|                                                       |              | 20,445,900                 | 21,635,400                    |
| <b>Shareholders' Deficiency</b>                       |              |                            |                               |
| Preference shares                                     | 10           | 211,200                    | 211,200                       |
| Common shares                                         | 10           | 27,700,100                 | 27,683,500                    |
| Equity reserve – stock options                        |              | 6,605,500                  | 6,605,500                     |
| Deficit                                               |              | (58,160,100)               | (57,002,500)                  |
| <b>Total shareholders' deficiency</b>                 |              | <b>(23,643,300)</b>        | <b>(22,502,300)</b>           |
| <b>Total liabilities and shareholders' deficiency</b> |              | <b>\$ 24,221,000</b>       | <b>\$ 24,258,400</b>          |
| <b>Commitments</b>                                    | 16           |                            |                               |
| <b>Subsequent events</b>                              | 17           |                            |                               |

See the accompanying notes to the consolidated financial statements.

These consolidated financial statements are authorized for issue by the Board of Directors on May 30, 2016. They are signed on the Company's behalf by:

"Richard A. Winters" Director

"Mark T Brown" Director

**Sutter Gold Mining Inc.**  
**Condensed Interim Consolidated Statements of (Loss) and Comprehensive**  
**(Loss)**

*(Expressed in US Dollars)*  
*(Unaudited)*

|                                                                          |              | <b>For the three months ended</b> |                    |
|--------------------------------------------------------------------------|--------------|-----------------------------------|--------------------|
|                                                                          |              | <b>March 31,</b>                  |                    |
|                                                                          | <b>Notes</b> | <b>2016</b>                       | <b>2015</b>        |
| <b>Operating expenses</b>                                                |              |                                   |                    |
| Wages and benefits                                                       |              | \$ 59,900                         | \$ 100,000         |
| Mine property holding costs                                              |              | 315,100                           | 244,800            |
| Professional and contract services                                       |              | 21,100                            | 28,500             |
| Office and administrative                                                |              | 42,800                            | 66,900             |
| Depreciation                                                             |              | 31,700                            | 52,400             |
| Rent and electricity                                                     |              | 29,600                            | 10,900             |
| Loss on write-off of assets                                              |              | -                                 | 807,800            |
| Gain/(loss) on foreign exchange                                          |              | 2,000                             | (2,900)            |
|                                                                          |              | <u>502,200</u>                    | <u>1,308,400</u>   |
| <b>Loss from operations</b>                                              |              | <u>(502,200)</u>                  | <u>(1,308,400)</u> |
| Interest income                                                          |              | 100                               | -                  |
| Finance costs                                                            | 9            | (661,800)                         | (558,000)          |
| Other income                                                             |              | 6,300                             | 3,600              |
|                                                                          |              | <u>(655,400)</u>                  | <u>(554,400)</u>   |
| <b>Net (loss) and total comprehensive (loss) for the year</b>            |              | <u>(1,157,600)</u>                | <u>(1,862,800)</u> |
| <b>Net (loss) per share:</b>                                             |              |                                   |                    |
| Basic and diluted (loss) per share attributable to common shareholders   | 12           | \$ (0.01)                         | \$ (0.02)          |
| Weighted average number of common shares outstanding – basic and diluted | 12           | <u>123,732,558</u>                | <u>123,086,374</u> |

See the accompanying notes to the consolidated financial statements.

**Sutter Gold Mining Inc.**

**Consolidated Statements of Changes in Shareholders' Deficiency**

(Expressed in US Dollars)

(Unaudited)

|                                           | <i>Notes</i> | <b>Preference Shares</b> |               | <b>Common shares</b>    |               | <b>Equity Reserve – Stock Options</b> | <b>Deficit</b>  | <b>Total Shareholders' Deficiency</b> |
|-------------------------------------------|--------------|--------------------------|---------------|-------------------------|---------------|---------------------------------------|-----------------|---------------------------------------|
|                                           |              | <b>Number of shares</b>  | <b>Amount</b> | <b>Number of shares</b> | <b>Amount</b> |                                       |                 |                                       |
| <b>Balance at January 1, 2015</b>         |              | 254,414                  | 211,200       | 123,877,007             | 27,262,300    | 6,605,500                             | ( 51,920,200 )  | ( 17,448,500 )                        |
| Shares issued for debt settlement         |              | -                        | -             | 475,000                 | 28,500        | -                                     | -               | 28,500                                |
| Net loss and total comprehensive loss     |              | -                        | -             | -                       | -             | -                                     | (1,862,800)     | ( 1,862,800 )                         |
| <b>Balance at March 31, 2015</b>          | 10           | 254,414                  | 211,200       | 123,877,007             | 27,683,500    | 6,605,500                             | ( 53,783,000 )  | ( 19,282,800 )                        |
| <b>Balance at January 1, 2016</b>         | 10           | 254,414                  | \$ 211,200    | 123,877,007             | \$ 27,683,500 | \$ 6,605,500                          | \$ (57,002,500) | \$ (22,502,300)                       |
| Shares issued for severance               | 10           | -                        | -             | 475,000                 | 16,600        | -                                     | -               | 16,600                                |
| Net income and total comprehensive income |              | -                        | -             | -                       | -             | -                                     | ( 1,157,600 )   | ( 1,157,600 )                         |
| <b>Balance at March 31, 2016</b>          | 10           | 254,414                  | \$ 211,200    | 124,827,007             | \$ 27,700,100 | \$ 6,605,500                          | \$ (58,160,100) | \$ (23,643,300)                       |

See the accompanying notes to the consolidated financial statements.

**Sutter Gold Mining Inc.****Condensed Interim Consolidated Statement of Cash Flows***(Expressed in US Dollars)*

|                                                                                 | <b>For the period ended<br/>ended March 31,</b> |                |
|---------------------------------------------------------------------------------|-------------------------------------------------|----------------|
|                                                                                 | <b>2016</b>                                     | <b>2015</b>    |
| <b>Cash flows from operating activities</b>                                     |                                                 |                |
| <b>Net income (loss)</b>                                                        | \$ (1,157,600)                                  | \$ (1,862,800) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: |                                                 |                |
| Depreciation                                                                    | 31,700                                          | 52,400         |
| Loss on write-off of property, plant and equipment, net                         | -                                               | 740,800        |
| Interest and Finance costs                                                      | 661,800                                         | 558,000        |
| Severance Costs                                                                 | 16,600                                          | -              |
|                                                                                 | (447,500)                                       | (511,600)      |
| Changes in non-cash working capital:                                            |                                                 |                |
| Accounts receivable                                                             | (2,700)                                         | 7,000          |
| Prepaid expenses                                                                | 11,700                                          | (4,400)        |
| Accounts payable and accrued liabilities                                        | (5,500)                                         | 81,500         |
| Net cash used in operating activities                                           | (444,000)                                       | (427,500)      |
| <b>Cash flows from investing activities</b>                                     |                                                 |                |
| Change in restricted investments                                                | (100)                                           | 30,000         |
| Payments for mine under development                                             | -                                               | -              |
| Net cash generated (used) in investing activities                               | (100)                                           | 30,000         |
| <b>Cash flows from financing activities</b>                                     |                                                 |                |
| Proceeds from note payable                                                      | 447,300                                         | 475,100        |
| Net cash provided by financing activities                                       | 447,300                                         | 475,100        |
| <b>Net increase (decrease) in cash</b>                                          | 3,200                                           | 77,600         |
| <b>Cash - Beginning of the period</b>                                           | 176,200                                         | 128,700        |
| <b>Cash - End of the period</b>                                                 | \$ 179,400                                      | \$ 206,300     |

See the accompanying notes to the consolidated financial statements.

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2016 and 2015

*(Expressed in US Dollars except for per share information)*

*(unaudited)*

### **1. GENERAL INFORMATION**

Sutter Gold Mining Inc. ("SGMI" or "the Company") is a Canadian resource company engaged in the exploration of mineral properties. The head office, principle, and registered address of the Company is 2414 Garland Street, Lakewood, CO 80215. The Company is listed on the TSX Venture exchange in Canada and OTCQX International exchange in the United States of America.

On December 29, 2004, the Company completed a reverse take-over by acquiring Sutter Gold Mining Company ("SGMC") of Riverton, Wyoming. At that time, approximately 4% of SGMC's shareholders did not tender their existing shares in exchange for new common shares of the Company. The Company allotted 1,787,847 common shares to be issued to these shareholders and effective March 31, 2016 and 2015, 718,352 of these common shares still remain to be allotted to SGMC's shareholders should they elect to tender their shares in the future.

The Company is established to conduct operations on mining leases and to produce gold from the Lincoln Project, a gold mining prospect in the Mother Lode mining district of Amador County, California.

On August 22, 2008, RMB Resources Ltd. ("RMB"), a trustee for the Telluride Investment Trust, completed the acquisition of 39,062,072 common shares of the Company from U.S. Energy Corp. ("USE") for an aggregate purchase price of C\$5,400,000. On August 22, 2011, RMB exercised all of its 6,384,700 outstanding warrants. As at March 31, 2016 and 2015, RMB owned 58,216,820 of the 124,827,007 and 123,877,007 outstanding common shares of the Company, respectively.

On July 23, 2015 the Company filed an updated Technical Report dated July 2, 2015 ("2015 Report") for the Company's Lincoln Project in Sutter Creek, California. The 2015 Report includes updated project-wide resource estimates, which include a re-stating of the 2011 Lincoln-Comet resource, along with an updated Preliminary Economic Assessment ("PEA") on the Lincoln Comet resource. The 2015 Report was prepared by Mine Development Associates. Refer to press release dated July 23, 2015 Sutter Gold Files Updated Technical Report.

The 2015 report was written in accordance with disclosure and reporting requirements set forth in the Canadian Securities Administrators' National Instrument 43-101("NI 43-101") as well as with the Canadian Institute of Mining, Metallurgy and Petroleum's "CIM Definition Standards - For Mineral Resources and Reserves, Definitions and Guidelines" ("CIM Standards") adopted by the CIM Council on May 10, 2015. The updated 2015 Report is available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.suttergoldmining.com](http://www.suttergoldmining.com).

The reader must be cautioned that this preliminary economic assessment is preliminary in nature, includes Inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

### **2. BASIS OF PRESENTATION - GOING CONCERN**

These unaudited condensed interim 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 \$58,160,100 as at March 31, 2016 (\$53,783,100 as at March 31, 2015). 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. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. The Company has entered into a bridge loan facility arrangement with a related party to cover short-term operating capital requirements. As at March 31, 2016, the Company has a working capital deficiency of \$27,216,000 compared to a working capital deficiency as at March 31, 2015 of \$24,917,100. These unaudited condensed interim consolidated financial statements do not reflect adjustments, which may be material to the carrying

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2016 and 2015

*(Expressed in US Dollars except for per share information)*

*(unaudited)*

### **2. BASIS OF PRESENTATION - GOING CONCERN (CONTINUED)**

values of assets and liabilities which may be required should the Company be unable to raise adequate financing or meet current obligations and therefore be unable to continue as a going concern. Also see Notes 13(b).

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Statement of compliance**

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial reporting" using accounting policies consistent with those issued by the International Accounting Standards Board ("IFRS") effective for the period ended March 31, 2016, using the significant accounting policies outlined below.

These unaudited condensed interim consolidated financial statements may not include all of the information required for full annual financial statements and therefore should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2015 and 2014.

#### **(b) Basis of preparation**

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information and for financial instruments classified as available-for-sale which are stated at fair value. These statements follow the same accounting policies and methods of their application as described in the most recent annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim consolidated financial statements.

#### **(c) Principles of consolidation**

These unaudited condensed interim consolidated financial statements of the Company include the accounts of the Company and those of its subsidiaries SGM and USECC Gold LLC, both Wyoming corporations. All intercompany profits, expenses, transactions and balances have been eliminated upon consolidation.

#### **(d) Accounting standards and interpretations issued but not yet effective**

*Effective for the Company's financial years commencing on January 1, 2018*

- IFRS 9, *Financial Instruments, Classification and Measurement*:

On July 24, 2014, the IASB issued the complete IFRS 9 (2014). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. Early adoption is permitted. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of IFRS 9 (2014) on its consolidated financial statements.

Several other new standards and amendments apply for the first time in fiscal 2016, however, they are not applicable to the financial statements of the Company.

**Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2016 and 2015

*(Expressed in US Dollars except for per share information)**(unaudited)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Share-based payment**

The Company has in effect a share option plan ("the Plan"), which allows Company employees, directors and officers to acquire shares of the Company. The Company recognizes employee compensation expense with a corresponding increase in equity based upon the fair value of the options outstanding at the statement of financial position date for options granted to employees of the Company. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**(f) Deferred income taxes**

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**(g) Property, plant and equipment**

Land improvements, buildings and equipment and vehicles are carried at cost net of accumulated depreciation. Residual values and estimated useful lives are reviewed at least annually. Depreciation is provided principally by the straight-line method over estimated useful lives as follows:

|                        |             |
|------------------------|-------------|
| Land Improvements      | 3-5 years   |
| Buildings              | 10-20 years |
| Equipment and vehicles | 3-5 years   |

**(h) Mineral properties**

Mineral properties are carried at cost and include the acquisition and pre-production costs related to the properties. These costs will be depreciated on a unit-of-production basis over the estimated recoverable reserves if the properties are brought into commercial production, as determined by using measured and indicated resources. If the properties are abandoned or if the carrying value is determined to be in excess of possible recoverable amounts, they will be written off or written

**Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2016 and 2015

*(Expressed in US Dollars except for per share information)*

*(unaudited)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

down, respectively.

The cost of mineral properties includes any cash consideration paid, and the fair market value of shares issued, if any, on the acquisition of property interests. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values. All mineral lease payments are at the option of the company. The Company does not accrue mineral lease payments.

All expenditure on the construction, installation or completion of infrastructure facilities is capitalized within “mines under development”. Costs capitalized under “mines under development” include pre-production revenues and expenditures prior to achieving commercial production. Commercial production is a convention for determining the point at which time a mine is producing at a sustainable commercial level after which production costs are no longer capitalized and are reported as operating costs. After production starts, all assets included in “Mines under development” are transferred to “Producing mines”.

**(i) Exploration and evaluation**

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or asset acquisition which are recognized as assets. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of loss and comprehensive loss.

Capitalized costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and the commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mineral property and development assets within property, plant and equipment. As at March 31, 2016 and 2015, there are no mineral costs capitalized.

**(j) Impairment of non-financial assets**

At each financial position reporting date the carrying amounts of the Company’s non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

**Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

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*(Expressed in US Dollars except for per share information)*

*(unaudited)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Impairment of non-financial assets (continued)**

The recoverability of amounts shown for mineral properties and deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**(k) Foreign currency translation**

The functional currency and, unless otherwise indicated, the presentation currency of the Company is the United States ("US") Dollar. All figures presented have been rounded to the nearest hundreds. The Canadian parent corporations' transactions not in USD are translated into US Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the statement of financial position dates;
- non-monetary assets and liabilities at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period.

Exchange gains and losses arising from the conversion of foreign currency balances and transactions are reported in profit and loss as they occur.

**(l) Financial assets and liabilities**

The Company's financial assets and liabilities include cash and cash equivalents, restricted investments, accounts receivable, accounts payable and accrued liabilities, warrants and note payable.

Financial assets and liabilities are classified into the following specified categories: available-for-sale ("AFS") financial assets, loans and receivables and other liabilities. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company classified its cash, restricted investments and accounts receivable as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and notes payable, except those at fair value through profit or loss, are classified as other financial liabilities.

Any warrant liability is classified as fair value through profit or loss ("FVTPL"). The warrant liability is a derivative whose fair value is determined using the Black-Scholes option pricing model and its value is derived from the underlying security. Gains and losses on remeasurement are recorded in the consolidated statement of loss and comprehensive loss.

The Company designated the RMBAH prepaid gold facility as a financial liability at fair value through profit or loss. The Company previously recognized a mark to market gain or loss on this debt based on the difference between the spot price of repayable gold ounces as at the date of the statement of financial position and the aggregate of the agreed upfront payment price per ounce plus the delivery price per ounce.

**Impairment of financial assets:**

Financial assets are assessed for indicators of impairment at each financial position reporting date except those at FVTPL. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

**Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

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*(Expressed in US Dollars except for per share information)*

*(unaudited)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Financial assets and liabilities (Continued)**

- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

**Financial instruments recorded at fair value:**

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

**(m) Cash**

Cash consists of cash deposits in banks and certificates of deposits. The Company does not hold any asset backed commercial paper.

**(n) Asset retirement obligations**

Environmental expenditures that are associated with the retirement of tangible long lived assets are recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. These obligations are capitalized in the accounts of the related long lived assets and are depreciated over the useful lives of the related assets. It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or costs estimates. Changes in estimates are accounted for prospectively from the period in which these estimates are revised.

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.

As at March 31, 2016 and 2015, the Company does not have any asset retirement obligations other than reclamation liabilities as accrued.

**(o) Equity**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the fair value of the proceeds received, net of direct issue costs.

**(p) Interest income**

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

## **Sutter Gold Mining Inc.**

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2016 and 2015

*(Expressed in US Dollars except for per share information)*

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(q) Expenses**

##### *Borrowing costs*

Borrowing costs related to the costs of developing mining properties and constructing new facilities are capitalized and included in the carrying amounts of the related assets until mining properties reach commercial production and facilities are ready for their intended use.

All other borrowing costs are recognized in profit or loss in the period in which they incurred.

#### **(r) Income (loss) per share**

Basic income (loss) per common share is calculated by dividing the income (loss) attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted income (loss) per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Stock options, shares to be issued, and warrants outstanding are not included in the computation of diluted income (loss) per share if their inclusion would be anti-dilutive.

### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

#### **(s) Segment reporting**

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company operates in one business segment, namely, mineral exploration.

#### **(t) Use of judgments and estimates**

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based upon historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant judgments relate to the impairment of assets and the preparation of these interim consolidated financial statements on a going concern basis.

##### *Sources of estimation uncertainty*

Significant assumptions about the future and the other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i. The application of determining the useful lives and residual values of property, plant and equipment are estimates by management based on assumptions about future events. Estimates and assumptions made may change if new information becomes available. New information may become available during the use of these assets that causes the Company to adjust its estimates.
- ii. The ability to recover the carrying values of its mine under development are around the fair value less costs to sell and value in use of these assets. Estimates and assumptions made may change if new information becomes

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**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)****(t) Use of judgments and estimates (continued)**

available. New information may become available during the use of these assets that causes the Company to adjust its estimates.

- iii. The Company uses the Black Scholes pricing model to estimate the fair value of stock options granted and warrants issued. Option pricing models require the input of subjective assumptions including the expected price volatility, interest rates and expected life of the option or warrant granted. Changes in the input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide an accurate single measure of the actual fair value of the Company's stock options granted and warrants.
- iv. The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and to make assumptions about the future performance of the Company. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.
- v. The ultimate amount of the site restoration and reclamation costs and the mine closure costs that will have to be incurred is uncertain due to the fact that the laws and regulations are continually changing, the uncertainty regarding the extent of the liability, and the magnitude of costs required to discharge this liability. In addition, the timing of the settlement of the obligation is uncertain.

*Critical accounting judgments*

Significant judgments about the future and the other sources of judgment uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from judgments made, relate to, but are not limited to, the following:

- i. The Company uses judgment in determining whether there are facts and circumstances suggesting that the carrying amount of its mine under development may exceed its recoverable amount.
- ii. The Company uses judgment in determining its ability to continue as a going concern in order to discharge its current liabilities via raising additional financing.
- iii. The Company uses judgment in determining the classification of its RMBAH prepaid gold facility as a financial liability measured at FVTPL.
- iv. The Company uses judgment in determining its functional currency. IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21") defines the functional currency as the currency of the primary economic environment in which an entity operates. IAS 21 requires the determination of functional currency to be performed on an entity by entity basis, based on various primary and secondary factors. In identifying the functional currency of the parent and of its subsidiaries and jointly controlled entities, management considered the currency that mainly influences the cost of undertaking the business activities in each jurisdiction in which the Company operates. The Company has determined that its functional currency is the United States Dollar.

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**5. MINE UNDER DEVELOPMENT**

In 2011, the Company commenced construction of its Lincoln Mine Project. Below is a summary of the costs capitalized as at December 31, 2015 and March 31, 2016. On March 31, 2015 the Company ceased mine development and put the project into care and maintenance. All costs after this date were expensed.

|                              | Land<br>Improvements | Buildings    | Equipment<br>and Vehicles | Development<br>Costs | Total         |
|------------------------------|----------------------|--------------|---------------------------|----------------------|---------------|
| <b>Cost</b>                  |                      |              |                           |                      |               |
| Balance at January 1, 2015   | 8,355,900            | 4,915,300    | 6,062,900                 | 6,234,100            | 25,119,500    |
| Additions                    | -                    | -            | -                         | -                    | -             |
| Disposals                    | (1,104,600)          | -            | -                         | -                    | (1,104,600)   |
| Balance at December 31, 2015 | \$ 7,251,300         | \$ 4,915,300 | \$ 6,132,500              | \$ 6,687,200         | \$ 24,986,300 |
| Balance at January 1, 2016   | 7,251,300            | 4,915,300    | 6,132,500                 | 6,687,200            | 24,896,300    |
| Additions                    | -                    | -            | -                         | -                    | -             |
| Disposals                    | -                    | -            | -                         | -                    | -             |
| Balance at March 31, 2016    | \$ 7,251,300         | \$ 4,915,300 | \$ 6,132,500              | \$ 6,687,200         | \$ 24,986,300 |

|                              | Land<br>Improvements | Buildings  | Equipment<br>and Vehicles | Development<br>Costs | Total        |
|------------------------------|----------------------|------------|---------------------------|----------------------|--------------|
| <b>Depreciation</b>          |                      |            |                           |                      |              |
| Balance at January 1, 2015   | 328,200              | 256,200    | 540,600                   | -                    | 1,125,000    |
| Additions                    | 48,100               | 67,000     | 33,300                    | -                    | 148,400      |
| Disposals                    | (296,800)            | -          | -                         | -                    | (296,800)    |
| Balance at December 31, 2015 | \$ 79,500            | \$ 323,200 | \$ 573,900                | \$ -                 | \$ 976,600   |
| Balance at January 1, 2016   | 79,500               | 323,200    | 573,900                   | -                    | 976,600      |
| Additions                    | 7,100                | 16,700     | 7,900                     | -                    | 31,700       |
| Disposals                    | -                    | -          | -                         | -                    | -            |
| Balance at March 31, 2016    | \$ 86,600            | \$ 339,900 | \$ 581,800                | \$ -                 | \$ 1,008,300 |

|                         | Land<br>Improvements | Buildings    | Equipment<br>and Vehicles | Development<br>Costs | Total         |
|-------------------------|----------------------|--------------|---------------------------|----------------------|---------------|
| <b>Carrying amounts</b> |                      |              |                           |                      |               |
| At December 31, 2015    | \$ 7,171,800         | \$ 4,592,100 | \$ 5,558,600              | \$ 6,687,200         | \$ 24,009,700 |
| At March 31, 2016       | \$ 7,164,700         | \$ 4,575,400 | \$ 5,550,700              | \$ 6,687,200         | \$ 23,978,000 |

During the three months ended March 31, 2016, the Company incurred \$661,600 of interest expense related to the senior secured term loan facility (See Note 9).

**6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**Sutter Gold Project, CaliforniaLincoln and Comet Properties

The Sutter Gold Project – the Lincoln and Comet properties are situated on a 551-acre block of mining claims and surface rights 45 miles east-southeast of Sacramento, California, in the central part of the 121-mile-long Mother Lode gold belt.

The Comet and Lincoln leases were amended in 2003. Both leases have terms of 30 years, broken down into ten year segments carrying a 4% production royalty or minimum annual payments as described below for the Lincoln and Comet properties. An additional 0.5% net smelter return royalty is held by a consultant to a lessee and was in place prior to the

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**6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)**

acquisition of the properties and covers all the properties in the Lincoln Mine Project. Lease payments are made at the Company's option, no accrual is made. The payments have been made through years 12 and 21 for the Lincoln and Comet leases respectively.

| <u>Years</u>                  | <u>Annual Payments</u> |                |
|-------------------------------|------------------------|----------------|
|                               | <u>Comet</u>           | <u>Lincoln</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 Property*

On January 21, 2005, the Company entered into a lease agreement to acquire 132 acres of land immediately adjacent to the Company's Lincoln Mine 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, 2016, 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'. Lease payments are made at the Company's option, no accrual is made. All payments have been made through year 12 of the lease.

| <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. The lease term is 30 years, broken down into ten years segments. A royalty of 5% of the net profits on production exists on these properties. A new lease would have to be entered into by both parties at the end of the 30 year term. The "net profits" will be determined by subtracting from gross mineral revenues an amount equal to 105% of numerous categories of costs and expenses. Lease payments are made at the Company's option, no accrual is made. The payments have been made through year 14 of the lease.

| <u>Years</u> | <u>Annual Payments</u> |
|--------------|------------------------|
| 1-10         | \$ 5,000               |
| 11-20        | \$ 7,000               |
| 21-30        | \$ 10,000              |

*Cecchetti Trust*

Effective May 20, 2009, the Company entered into a Mineral Lease Agreement with the Cecchetti Trust. The lease covers 162 acres adjoining and contiguous with existing Sutter Gold Properties and requires annual base lease payments of \$5,000 for the first 10 years of the lease. The lease automatically renews and extends at the end of the first term for 2 successive 10 year terms unless cancelled in writing by the company. A Production Royalty of 4% of saleable product

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**6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)**

*Cecchetti Trust (continued)*

produced on these leases will be paid during mining operations. Lease payments are made at the Company's option, no accrual is made. The payments have been made through year 8 of the lease.

**Mexican property**

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

The Company made an initial payment of \$13,300 (C\$15,000) on signing the Exclusive Option Agreement and issued 111,111 of its shares at a price of C\$0.36 (C\$40,000) on signing the Definitive Agreement on February 7, 2007. Required annual payments to The Alamo Group for the three years were as follows:

February 7, 2008 - C\$50,000 (paid);  
February 7, 2009 - C\$75,000 (paid);  
February 7, 2010 - C\$100,000 (paid);

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

On March 29, 2007, the Company signed a letter of intent and on August 7, 2007 signed a Joint Venture Agreement with Premier Gold Mines Ltd. ("Premier") to jointly explore the Company's Santa Teresa mineral concession. Premier is to earn an initial 50% interest in the project by issuing 100,000 common shares (received) to the Company, completing \$1.5 million in exploration and acquisition within two years and reimbursing the Company for all option payments due to the vendor (total of C\$280,000). The Company has been reimbursed for payments made February 7, 2008 through February 7, 2010. Premier has earned an additional 15% interest in the property (to a 65% interest) by conducting additional exploration activities on the property.

**7. RESTRICTED INVESTMENTS**

Future reclamation and mine closure costs will be the responsibility of the Company and are based on legal and regulatory requirements. The laws and regulations are continually changing and are generally becoming more restrictive. The Company believes it is in compliance with applicable laws and regulations and expects to make future expenditures to comply with these laws and regulations. The current estimated reclamation liability of \$31,700 is secured by a \$35,000 reclamation bond as at March 31, 2016, and 2015. The Company has a conservation Certificate of Deposit for benefit of Amador Water Agency in the amount of \$5,500 for the periods ended March 31, 2016 and 2015.

In January 2015, the Company closed a Certificate of Deposit held with US Bank totaling \$30,000 as collateral for the Company's credit cards. As at March 31, 2016 and 2015 the Company had no collateral for the Company's credit cards.

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*(Expressed in US Dollars except for per share information)**(unaudited)***8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of the following:

|                                 | <b>March 31, 2016</b> | <b>December, 31, 2015</b> |
|---------------------------------|-----------------------|---------------------------|
| Accounts payable                | \$ 18,300             | \$ 800                    |
| Salaries and other compensation | 55,800                | 88,100                    |
| Accrued expenses                | 98,400                | 89,100                    |
|                                 | <u>\$ 172,500</u>     | <u>\$ 178,000</u>         |

**9. LOAN FACILITY**

The current and long-term portion of the note payable as at March 31, 2016 and December 31, 2015 are as follows:

|               | <b>As at March 31, 2016</b> |                      |                      | <b>As at December 31, 2015</b> |                      |                      |
|---------------|-----------------------------|----------------------|----------------------|--------------------------------|----------------------|----------------------|
|               | Current Portion             | Long-term Portion    | Total                | Current Portion                | Long-term Portion    | Total                |
| RMBAH "SSTLF" | 22,115,200                  | 20,414,300           | 42,529,500           | 20,478,400                     | 21,603,800           | 42,082,200           |
|               | <u>\$ 22,115,200</u>        | <u>\$ 20,414,300</u> | <u>\$ 42,529,500</u> | <u>\$ 20,478,400</u>           | <u>\$ 21,603,800</u> | <u>\$ 42,082,200</u> |

**RMBAH Senior Secured Term Loan Facility ("SSTLF")**

On December 23, 2013 the Company entered into a new agreement for a SSTLF with RMBAH to replace both the existing PPGF and BLF agreement, as amended and restated.

The existing forward positions associated with the PPGF were closed out at market according to the close out protocol agreed between the Company and RMBAH with the resulting marked-to-market value of the PPGF obligations forming part of the principal amount to be restructured in the SSTLF.

The refinanced amounts were as follows:

- PPGF \$17.05 million
- BLF \$19.97 million

The total amount available under the SSTLF is \$40 million.

The SSTLF bears interest at Libor plus 5% per annum accrued monthly for 2014 and is payable quarterly beginning March 31, 2015 and continuing until repayment of the SSTF.

Scheduled principal repayments of the SSTLF commenced December 31, 2014 on a quarterly basis through March 31, 2018 based on the following percentages of the outstanding SSTLF balance at that time:

- Quarter ended December 31, 2014 – 6.0%
- Quarters ended March 31, 2015 through December 31, 2016 – 6.5%
- Quarters ended March 31, 2017 through June 30, 2017 - 7.5%
- Quarters ended September 30, 2017 through March 31, 2018 – 9.0%

Any balance remaining thereafter - payable on March 31, 2018

Scheduled principal repayments of the SSTLF will commence December 31, 2014 on a quarterly basis through March 31, 2018. Mandatory pre-payments of the SSTLF will be made equal to 75% of the available free cash flow after all project and corporate costs, interest and scheduled repayments on a quarterly basis. The SSTF may also be pre-paid by the Company at any time without penalty in part or in whole. Upon commencement of commercial production the Company may enter into gold hedging arrangements with RMBAH at its discretion over a maximum of 60% of forecast

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*(Expressed in US Dollars except for per share information)**(unaudited)***9. LOAN FACILITY (CONTINUED)**

production over the term of the SSTF. As of March 31, 2016 no debt repayments have been made. Per the loan documentation “free cash flow” is calculated as follows:

|                                                          |
|----------------------------------------------------------|
| Cash from Operations                                     |
| - Less : Scheduled debt<br>repayments during the quarter |
| Free Cash Flow                                           |

The key benefits of restructuring the PPGF were to crystallize and reduce the obligations of the Company in a transparent manner, with the marked-to-market value at close \$2.95 million less than the nominal \$20 million borrowed at inception under the PPGF. The close out of the PPGF allows for all future production to be sold at spot rather than at a blend of the \$942/oz delivery price under the PPGF and the spot price. This improves expected cash flow for debt service and allows for the consideration of new hedging at a higher price point that would provide a greater degree of downside gold price protection during debt repayment. In addition, the SSTLF reduces the interest rate on funds borrowed under the BLF from Libor plus 10% to Libor plus 5%.

In February 2016, RMBAH approved funding for the Company’s 2016 budget which effectively increases the loan to \$44M.

For the three months ended March 31, 2016 and 2015 interest of \$661,800 and \$558,000 was accrued respectively. Total interest accrued as at March 31, 2016 was \$5,130,700 and \$4,468,900 as at December 31, 2015.

The loan is secured by substantially all of the assets of the Company.

**10. SHARE CAPITAL AND OTHER EQUITY***(a) Authorized, issued and outstanding common and preferred shares*

As at March 31, 2016 and December 31, 2015, the Company had an unlimited number of authorized common shares without par value, and outstanding were 124,827,007 and 123,877,007 shares respectively. 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, 2016 and 2015, 718,352 of these shares have not been tendered. All outstanding shares are fully paid.

Series 1 Convertible Redeemable Preference shares are convertible at any time by the holder into common shares of the Company on a one for one basis and are redeemable at any time by the Company at a price of C\$1 for each share redeemed. These shares are non-interest bearing. Issued and outstanding were 254,414 shares as at March 31, 2016 and 2015.

*(b) Warrants*

As at March 31, 2016 and 2015 no warrants were outstanding.

**11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN**

During the periods ended March 31, 2016 and 2015, the Company expensed/(recovered) \$Nil of share-based payments related to its Employee Share Option Plan (“Plan”).

During the period ended March 31, 2016 and 2015 no stock options were exercised or granted.

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**11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN (CONTINUED)**

A summary of the status of the Plan as at March 31, 2016 and December 31, 2015, and changes during the periods ended on those dates is presented below.

|                                       | Options   | Weighted Average<br>Exercise Price C\$ |
|---------------------------------------|-----------|----------------------------------------|
| Balance outstanding December 31, 2014 | 2,859,000 | 0.19                                   |
| Options forfeited                     | (284,000) | 0.18                                   |
| Balance outstanding December 31, 2015 | 2,575,000 | 0.19                                   |
| Balance outstanding March 31, 2016    | 2,575,000 | 0.19                                   |

As at March 31, 2016, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

| As at March 31, 2016 |                |                    |               |                  |
|----------------------|----------------|--------------------|---------------|------------------|
| Grant Date           | Options Issued | Exercise Price C\$ | Vesting Terms | Expiry date      |
| July 19, 2011        | 1,075,000      | 0.18               | A             | July 19, 2016    |
| November 1, 2011     | 1,500,000      | 0.20               | B             | November 1, 2016 |
|                      | 2,575,000      |                    |               |                  |

A. Options vest 100% at grant date.

B. Options vest 50% at grant date and 100% 1 year from grant date

The fair value of the options granted were measured based on the Black-Scholes Option Pricing Model. The expected volatility is estimated by considering historic weighted average share price volatility.

The inputs used in the measurement of fair value at the grant date of the share-based payments were as follows:

| Grant Date       | Fair<br>Value at<br>Grant<br>Date | Share<br>Price at<br>Grant<br>Date | Exercise<br>Price | Expected<br>Volatility<br>(weighted<br>average) | Expected<br>Life<br>(weighted<br>average) | Expected<br>Dividends | Risk Free<br>Interest<br>Rate |
|------------------|-----------------------------------|------------------------------------|-------------------|-------------------------------------------------|-------------------------------------------|-----------------------|-------------------------------|
| July 19, 2011    | C\$0.151                          | C\$0.18                            | C\$0.18           | 172%                                            | 5                                         | -                     | 1.64%                         |
| November 1, 2011 | C\$0.149                          | C\$0.20                            | C\$0.20           | 162%                                            | 5                                         | -                     | 1.09%                         |

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at March 31, 2016:

| Outstanding           |                        |                  |                                                  |                                              | Exercisable            |                                              |
|-----------------------|------------------------|------------------|--------------------------------------------------|----------------------------------------------|------------------------|----------------------------------------------|
| Exercise<br>Price C\$ | Options<br>Outstanding | Expiry date      | Weighted<br>Average<br>Remaining<br>Life (years) | Weighted<br>Average<br>Exercise<br>Price C\$ | Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price C\$ |
| \$0.18                | 1,075,000              | July 19, 2016    | 0.30                                             | \$0.18                                       | 1,075,000              | \$0.18                                       |
| \$0.20                | 1,500,000              | November 1, 2016 | 0.59                                             | \$0.20                                       | 1,500,000              | \$0.20                                       |
|                       | 2,575,000              |                  |                                                  | \$0.19                                       | 2,575,000              |                                              |

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*(Expressed in US Dollars except for per share information)**(unaudited)***12. INCOME (LOSS) PER SHARE****(a) Basic**

Basic income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of ordinary shares in issue during the year.

|                                                       | <b>March 31,</b> |                  |
|-------------------------------------------------------|------------------|------------------|
|                                                       | <b>2016</b>      | <b>2015</b>      |
| Net income (loss) attributable to common shareholders | \$ (1,157,600)   | \$ (1,862,800)   |
| Weighted average number of common shares in issue     | 123,732,558      | 123,086,874      |
| Basic income (loss) per share                         | <u>\$ (0.01)</u> | <u>\$ (0.02)</u> |

**(b) Diluted**

Diluted income (loss) per share has not been presented for March 31, 2016 and 2015 as this calculation is anti-dilutive.

**13. FINANCIAL RISK MANAGEMENT****(a) Credit risk management**

The Company's credit risk is primarily attributable to cash and restricted investments and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and restricted investments have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is remote. Accounts receivable consists primarily of goods and services tax due from the federal government of Canada.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities, and leases payable are due within the current operating period. The following are the contractual maturities of the Company's financial obligations as at March 31, 2016 and 2015:

|                                             | <b>March 31, 2016</b>      |                                   |                           |                  |                              |
|---------------------------------------------|----------------------------|-----------------------------------|---------------------------|------------------|------------------------------|
|                                             | <b>Carrying<br/>Amount</b> | <b>Contractual<br/>cash flows</b> | <b>1 year or<br/>less</b> | <b>2-5 years</b> | <b>More than 5<br/>years</b> |
| Accounts payable and<br>accrued liabilities | \$ 172,500                 | \$ 172,500                        | \$ 172,500                | \$ -             | \$ -                         |
| Accrued interest                            | \$ 5,130,700               | \$ 5,130,700                      | \$ 5,130,700              |                  |                              |
| Notes payable                               | \$ 42,529,500              | \$ 42,529,500                     | \$ 22,115,200             | \$ 20,414,300    | \$ -                         |
| Reclamation liability                       | \$ 31,600                  | \$ 31,600                         | \$ -                      | \$ -             | \$ 31,600                    |
| Mineral leases                              | \$ -                       | \$ 363,400                        | \$ 24,000                 | \$ 105,000       | \$ 234,000                   |

(Refer also to Note 2. Basis of Presentation - Going Concern)

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*(Expressed in US Dollars except for per share information)**(unaudited)***13. FINANCIAL RISK MANAGEMENT (CONTINUED)****(b) Liquidity risk (continued)**

|                                             | <b>December 31, 2015</b> |                           |                   |               |                      |
|---------------------------------------------|--------------------------|---------------------------|-------------------|---------------|----------------------|
|                                             | Carrying<br>Amount       | Contractual<br>cash flows | 1 year or<br>less | 2-5 years     | More than 5<br>years |
| Accounts payable and<br>accrued liabilities | \$ 178,000               | \$ 178,000                | \$ 178,000        | \$ -          | \$ -                 |
| Accrued interest                            | \$ 4,468,900             | \$ 4,468,900              | \$ 4,468,900      | \$ -          | \$ -                 |
| Notes payable                               | \$ 42,082,200            | \$ 42,082,200             | \$ 20,478,400     | \$ 21,603,800 | \$ -                 |
| Reclamation liability                       | \$ 31,600                | \$ 31,600                 | \$ -              | \$ -          | \$ 31,600            |
| Mineral leases                              | \$ -                     | \$ 378,800                | \$ 24,000         | \$ 110,000    | \$ 249,800           |

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity. The Company is exposed to interest rate risk related to its SSTLF (see Note 9). The SSTLF incurs interest based on the 30-day LIBOR rate plus 5.0% during 2016. A 10% increase in the LIBOR rate in the period ended March 31, 2016 would have increased the Company's interest expense by the amount of \$1,180,500.

**(d) Foreign exchange risk**

The Company's property interests in United States and Mexico make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the US Dollar, the Canadian Dollar and Mexican Pesos. The Company had no transactions denominated in the Mexican Peso in 2016 and 2015. The Company does not invest in foreign currency contracts to mitigate the risks. The Company has not presented a sensitivity analysis table for the foreign currency cash balances as at March 31, 2016 and 2015 as any fluctuation is not material to the Company's financial statements.

**(e) Fair value of financial assets and liabilities**

The book values of the cash, accounts receivable, restricted investments and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

**(f) Fair Value Hierarchy**

The following table summarizes the fair value hierarchy under which the Company's financial instruments measured at fair value on the consolidated balance sheet are valued:

- 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, either directly (as prices) or indirectly (derived from prices);
- Level III - measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Company had no assets or liabilities valued at fair value as at March 31, 2016 and 2015.

## Sutter Gold Mining Inc.

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(Expressed in US Dollars except for per share information)

(unaudited)

### 14. CAPITAL RISK MANAGEMENT

The Company manages its common shares, options and warrants less cash 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. (Refer also to Note 2. Basis of Presentation - Going Concern)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, extend the due date of existing debt, enter into new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay 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. These maturities are 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. The Company expects to have sufficient capital resources for its planned operational expenses, financing obligations and administration overhead expenses for 2016.

### 15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions. RMB is also a related party due to its large share ownership and its financing to the Company (see Note 9).

During the periods ended March 31, 2016 and 2015 the company accrued interest expense of \$661,800 and \$558,000, respectively on the SSTLF Loan Facility outlined in Note 9.

The remuneration of key management personnel of the Company for the period ended March 31, 2016 and 2015 was as follows:

|                              | March 31,        |                  |
|------------------------------|------------------|------------------|
|                              | 2016             | 2015             |
| Short-term employee benefits | \$ 76,200        | \$ 76,200        |
| Share based compensation     | -                | -                |
|                              | <u>\$ 76,200</u> | <u>\$ 76,200</u> |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consist of the Company's directors, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

On July 31, 2013, the Company reached an agreement its former Chief Executive Officer to settle the severance owed with respect to her termination as Chief Executive Officer of the Company. The Company agreed that the severance would be payable in four installments: (i) USD\$83,333 payable in cash immediately; (ii) USD\$138,889 to be paid on each of January 15, 2014, January 15, 2015 and January 15, 2016, either in cash or in common shares of the Company. The determination of whether any of the future payments noted above will be made in cash or in shares will be at the sole discretion of the Company. The deemed price of the common shares that may be issued in connection with the above noted installments will be the average closing share price of the Company during the 10 trading days up to and including

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*(unaudited)*

**15. RELATED PARTY TRANSACTIONS (CONTINUED)**

January 15 of each applicable year, but in any event, no more than 475,000 common shares will be issued (equating a deemed price of approximately \$0.30 per share) in each of the three installments.

In January 2014, 2015 and 2016 a share issuance of 475,000 common shares was made in each respective period.

On March 31, 2014, the Company reached an agreement with its then Chief Financial Officer to settle the severance owed with respect to his termination as Chief Financial Officer of the Company. The Company agreed that the severance was to be payable immediately in two installments: (i) USD\$83,334 payable in cash immediately; (ii) USD\$316,666 was paid in common shares of the Company in April 2014. The deemed price of the common shares that were issued was based on the noon exchange rate for USD to CAD at the Bank of Canada on April 2, 2014. As a consequence, 1,746,641 common shares were issued (equating to a deemed price of approximately \$0.20 per share).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

**16. COMMITMENTS**

On May 3, 2007, the Company settled a Contingent Stock Purchase Warrant liability with U.S. Energy Corp. by the issuance of a Net Profits Interest royalty ("NPIR") of 5% until an 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. No amount has been accrued as a liability as at March 31, 2016 and 2015 as there was no present obligation as nothing has been sold.

**17. SUBSEQUENT EVENTS**

None.