St. Augustine Gold and Copper Limited

Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2012 and 2011
Unaudited and expressed in U.S. dollars

Dated as of November 8, 2012

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Condensed notes to the interim consolidated financial statements

(Interim period is unaudited; presented in U.S. dollars)

	Notes	September 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 5,526,496	$ 24,656,885
Restricted cash	10	250,000	943,697
Advances to related party	6(c)	1,085,598	-
Prepaids and other current assets		301,074	319,021
Total current assets		7,163,168	25,919,603
Non-current assets			
Investment in mining property	5	78,993,698	64,651,019
Notes receivable	3	919,998	882,360
Property and equipment	4	856,778	866,423
Other non-current assets		425,000	177,687
Total non-current assets		81,195,474	66,577,489
Total assets		**$ 88,358,642**	**$ 92,497,092**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 2,173,879	$ 4,894,324
Warrant liability	7	-	316,267
Due to related parties	6(b)	3,839	51,283
Total current liabilities		2,177,718	5,261,874
Shareholders' equity			
Share capital	8(a)	86,077,399	86,077,399
Share option reserves	8(b)	8,764,742	6,701,148
Shares to be issued	9(c)	3,425,408	3,425,408
Accumulated deficit		(12,113,434)	(8,968,737)
Accumulated other comprehensive income		26,809	-
Total shareholders' equity		86,180,924	87,235,218
Total liabilities and shareholders' equity		**$ 88,358,642**	**$ 92,497,092**
Commitments and contingencies	9		
Subsequent events	12		

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

Approved on behalf of the Board of Directors:

"SIGNED"

Terry Krepiakevich
Director

"SIGNED"

Max V. Anhoury III
Director

St. Augustine Gold and Copper Limited
Consolidated interim statements of comprehensive loss
For the nine months ended September 30, 2012 and 2011
(Unaudited and presented in U.S. dollars)

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Operating expenses					
Wages and share-based payments	6(a)	$ 686,750	$ 380,548	$2,102,791	$ 5,508,482
Stock listing and transfer fees		20,922	7,320	123,399	316,279
General and administrative costs		289,987	242,459	1,292,966	389,865
Total operating expenses		$ 997,659	$ 630,327	$3,519,156	$ 6,214,626
Other income and expense					
Interest income		$ 3,726	$ 252,892	$ 15,241	$ 634,379
Gain on warrant liability	7	-	-	316,267	-
Foreign exchange gain (loss)		41,971	(7,102)	42,951	(7,102)
Total other income		$ 45,697	$ 245,790	$ 374,459	$ 627,277
Net loss		**$ 951,962**	$ 384,537	**$3,144,697**	$ 5,587,349
Foreign exchange translation gain		(79,797)	-	(26,809)	-
Total comprehensive loss		**$ 872,165**	$ 384,537	**$3,117,888**	$ 5,587,349
Net loss per common share, basic and diluted		$ 0.01	$ -	$ 0.01	$ 0.02
Weighted average common shares outstanding, basic and diluted		325,258,334	295,783,334	325,258,334	288,557,783

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

(Unaudited and presented in U.S. dollars)

		Nine months ended September 30,	
	Notes	**2012**	**2011**
Cash flows from operating activities			
Net loss		$ (3,144,697)	$ (5,587,349)
Share-based compensation expense		752,791	5,508,482
Non-cash fair value adjustment of warrant liability	7	(316,267)	-
Effects of foreign currency		(1,822)	7,102
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		17,947	(202,287)
Increase in other non-current assets		(247,313)	-
Net cash used by operating activities		$ (2,939,361)	$ (274,052)
Cash flows from investment activities			
Increase in investment in mining property		$ (12,809,990)	$ (36,221,146)
Decrease (increase) in restricted cash		693,697	(893,697)
Increase in advances to related parties	6(c)	(1,085,598)	(112,408)
Deposits returned from subsidiaries		-	125,737
Purchase of property and equipment	4	(212,241)	(817,590)
Disposal of equipment		-	106,109
Changes in non-cash investing working capital		(2,767,889)	(2,183,349)
Net cash used by investing activities		$ (16,182,021)	$ (39,996,344)
Cash flows from financing acitvities			
Net cash from reverse acquisition and recapitalization		$ -	$ 7,210,251
Repayments to related parties		-	(2,000,000)
Proceeds attributed to common stock and warrants		-	53,739,708
Net cash provided by financing activities		$ -	$ 58,949,959
Net increase (decrease) in cash and cash equivalents		$ (19,121,382)	$ 18,679,563
Effect of exchange rate changes on cash		(9,007)	-
Cash and cash equivalents, beginning of period		24,656,885	583,602
Cash and cash equivalents, end of period		**$ 5,526,496**	$ 19,263,165
Comprised of:			
Cash		$ 600,406	$ 734,837
Cash equivalents		4,926,090	18,528,328
Total cash and cash equivalents, end of period		**$ 5,526,496**	$ 19,263,165

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

(Unaudited and presented in U.S. dollars)

	Shares	Share Capital	Warrants	Shares to be issued	Share option reserves	Accumulated other comprehensive deficit	Accumulated deficit	Total
Balance, January 1, 2011	10,000,001	$ 2,069,664	$ 1,739,000	$ -	$ -	$ -	$ (1,789,391)	$ 2,019,273
Ratel shares outstanding upon recapitalization	90,000,000	-	-	-	-	-	-	-
Prior outstanding shares/warrants eliminated	(10,000,001)	1,739,000	(1,739,000)	-	-	-	-	-
Shares issued on recapitalization	80,000,000	3,653,795	-	-	-	-	-	3,653,795
Shares to be issued	-	-	-	3,425,408	-	-	-	3,425,408
Additional capital contributed	-	1,462,593	-	-	-	-	-	1,462,593
Shares issued for notes receivable	3,000,000	904,159	-	-	-	-	-	904,159
Options exercised concurrent with recapitalization	4,700,000	920,735	-	-	-	-	-	920,735
Private placement concurrent with recapitalization	83,333,334	25,196,041	-	-	-	-	-	25,196,041
Private placement at $CDN 1.22, net	32,800,000	38,918,800	-	-	-	-	-	38,918,800
Exercise of share options	1,950,000	398,733	-	-	-	-	-	398,733
Share-based payments	-	-	-	-	5,508,482	-	-	5,508,482
Net loss for the period	-	-	-	-	-	-	(5,587,349)	(5,587,349)
Balance, September 30, 2011	295,783,334	75,263,520	$ -	$ 3,425,408	$ 5,508,482	$ -	$ (7,376,740)	$ 76,820,670
Balance, January 1, 2012	325,258,334	86,077,399	-	3,425,408	6,701,148	-	(8,968,737)	87,235,218
Share based compensation	-	-	-	-	2,063,594	-	-	2,063,594
Foreign exchange translation gain for the period	-	-	-	-	-	26,809	-	26,809
Net loss for the period	-	-	-	-	-	-	(3,144,697)	(3,144,697)
Balance, September 30, 2012	325,258,334	$ 86,077,399	$ -	$ 3,425,408	$ 8,764,742	$ 26,809	$ (12,113,434)	$ 86,180,924

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

1. Organization and description of business

St. Augustine Gold and Copper Limited ("SAGC" or the "Company") was originally incorporated as Ratel Gold Limited ("Ratel"), a British Virgin Islands corporation. The Company's name was changed following a recapitalization completed during 2011. The address of SAGC's corporate office is 601 West Main Avenue, Suite 600, Spokane, Washington 99201. The registered address of the Company in the British Virgin Islands is Jayla Place, Wickham's Cay 1, Road Town, Tortola VG 1110, British Virgin Islands.

The Company has earned no revenues since its recapitalization in 2011 and is currently focusing its efforts on the acquisition, development and exploration of mineral properties. The Company and Nationwide Development Corporation ("NADECOR"), a Philippine corporation, entered into a Letter of Understanding dated November 10, 2009, and executed a Memorandum of Understanding ("MOU") on April 27, 2010. Under these agreements, subsequent amendments and related agreements, the Company became responsible for providing technical assistance for operations and acquired the right to earn-in an aggregate 60% equity position in the King-king Joint Venture envisioned in the MOU. The earn-in is based on expenditures made to benefit the King-king copper gold project (the "Project") as well as direct payments to NADECOR. The Project is a copper-gold mineral resource located at Sitio Gumayan, Barangay King-king, Municipality of Pantukan, Province of Compostela Valley, on Mindanao Island, Philippines. Several years of exploration, including drilling and baseline studies were completed by various parties.

The Company is dependent upon its ability to obtain additional financing to complete a Bankable Feasibility Study ("BFS"), develop the mine site, and fund operations. While the Company has been successful in raising funds in the past, there is no assurance that it will be able to do so in the future.

These condensed consolidated interim financial statements ("Financial Statements") were authorized for issue by the Board of Directors on November 8, 2012.

2. Significant accounting policies

(a) Statement of compliance

These Financial Statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2012. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011. Accordingly, accounting policies applied are the same as those applied in the Company's annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com.

The Financial Statements are prepared as at and for the nine months ended September 30, 2012, which is part of the period to be covered by the Company's annual financial statements for the year ending December 31, 2012.

(b) Basis of presentation

The Financial Statements have been prepared using historical costs and fair values of certain items. Items measured at fair value include cash held in foreign currencies, warrant liability and share-based payments.

(c) Basis of consolidation

These Financial Statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation. The acquisition method of accounting is used to account for acquisitions of companies and assets that meet the definition of a business under International Financial Reporting Standards ("IFRS"). The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(d) Significant accounting estimates, judgments and assumptions

The preparation of these Financial Statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

There were no changes in key estimates, judgments or assumptions since the annual period ended December 31.

(e) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Issues Committee that are mandatory for accounting periods beginning after January 1, 2012 or later periods. Those applicable to the Company are as follows:

- IFRS 7 – *Financial Instruments Disclosures* requires adoption of amendments for annual periods beginning January 1, 2013.
- IFRS 9 - *Financial Instruments* was issued as the first step in its project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.
- IFRS 10 - *Consolidated Financial Statements* will supersede the consolidation requirements in SIC-12 - Consolidation – Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11 - *Joint Arrangements* will supersede the existing standard IAS 31 - *Joint Ventures* effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.
- IFRS 12 - *Disclosure of Interests in Other Entities* is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- IFRS 13 - *Fair Value Measurement* sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- IAS 27 – *Consolidation and Separate Financial Statements* is required to be adopted for periods beginning January 1, 2013. IAS 27 applies in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity presents separate financial statements.
- IAS 28 - *Investments in Associates and Joint Ventures* is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Amendments to IAS 28 provide additional guidance applicable to accounting for interests in joint ventures or associates when a portion of an interest is

classified as held for sale or when an entity ceases to have joint control or significant influence over an associate or joint venture. When joint control or significant influence over an associate or joint venture ceases, the entity will no longer be required to re-measure the investment at that date. When a portion of an interest in a joint venture or associate is classified as held for sale, the portion not classified as held for sale shall be accounted for using the equity method of accounting until the sale is completed at which time the interest is reassessed for prospective accounting treatment.

- IAS 32 - *Financial Instruments Offsetting Financial Assets and Financial Liabilities.* The amendment provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective January 1, 2014.

Management is currently evaluating these standards and does not expect material impacts to the financial statements upon adoption.

3. Notes receivable

The Company holds notes receivable from former employees of the Company (under prior management), which were exchanged for 2 million shares in the Company. The notes are denominated in Canadian dollars and are reported at the translated U.S. dollar amount of $919,998 (2011 - $882,360). The notes are non-interest bearing and payable to the Company upon the earlier of the sale of the shares by the debtor or December 31, 2015.

4. Property and equipment

	Vehicles	Furniture and fixtures	Equipment	Buildings	Totals
Cost balance, beginning of period	$ 637,383	$ -	$ 245,183	$ 121,618	$ 1,004,184
Additions	-	141,226	62,376	8,639	212,241
Disposals	(64,618)	-	(1,537)	-	(66,155)
Balance, end of period	572,765	141,226	306,022	130,257	1,150,270
Accumulated depreciation, beginning of period	95,791	-	34,465	7,505	137,761
Additions	89,332	10,180	50,035	21,127	170,674
Disposals	(14,857)	-	(86)	-	(14,943)
Balance, end of period	170,266	10,180	84,414	28,632	293,492
Net book value, December 31, 2011	541,592	-	210,718	114,113	866,423
Net book value, September 30, 2012	**$ 402,499**	**$ 131,046**	**$ 221,608**	**$ 101,625**	**$ 856,778**

There were no indicators of impairment identified and no impairment loss recognized during the period ended September 30, 2012, with respect to property and equipment.

5. Investment in mining property

The Company has committed to spend $43,500,000 to complete a BFS for the Project, for which the Company earns a 45% interest in the Project. An additional 6% can be earned through interim payments to NADECOR and an additional 9% can be earned by funding a minimum of $32,000,000 in capital development expenditures ("CapEx"), subject to adjustment according to outcomes contemplated in the MOU. To earn the full 60% interest in the Project, the Company will spend, or pay to NADECOR, a total of $83,000,000, as outlined by the agreement summarized below and subject to adjustments for outcomes contemplated in the MOU. The Company also incurs costs related to the project which do not qualify for progress towards the earn-in. The expenditure requirements are summarized as follows:

Interim period financial disclosures are unaudited and presented in U.S. dollars unless otherwise noted

Summary of Expenditures Required by the Company for Full Earn-in to the Project under the MOU

Amount	Description	Earn-in %
$ 400,000	Exclusivity payment to NADECOR (i)	0.57%
3,100,000	Initial payment to NADECOR (ii)	4.43%
30,000,000	Initial BFS funding (iii)	30.00%
5,000,000	Incremental BFS funding (iv)	5.00%
8,500,000	Incremental BFS funding (iv)	10.00%
4,000,000	Payment to NADECOR (v)	1.00%
32,000,000	CapEx funding (vi)	9.00%
$ 83,000,000		60.00%

i. Direct payment to NADECOR made in 2009;

ii. $3,000,000 was paid in 2010. The remaining $100,000 was paid during the three months ended June 30, 2012;

iii. Direct project expenditures made by the Company pursuant to the Preferred Shares Investment Agreement (“PSIA”). The full amount has been expended;

iv. Direct project expenditures after the fulfillment of the $30,000,000 required to be expended under the PSIA, expected to be completed in 2012 or early 2013;

v. The timing of direct payments to NADECOR is contingent on events contemplated in the MOU. $981,000 was paid during the third quarter of 2011 pursuant to the third amendment to the MOU, and the balance is expected to be paid in 2012 or 2013; and

vi. Total capital expenditures based on planned mine throughput. The minimum commitment is $32,000,000 and is subject to adjustment depending on the planned throughput of the mine.

The following table summarizes the primary categories of accumulated earn-in expenditures as of September 30, 2012, and December 31, 2011:

Category	BFS	CapEx	Acquisition payments to NADECOR	September 30, 2012	December 31, 2011
Project expenditures	$ 35,305,158	$ 20,238,137	$ 1,878,000	$ 57,421,295	$ 41,622,987
Benguet settlement expenditures	-	21,630,565	3,000,000	24,630,565	23,183,344
Total	**$ 35,305,158**	**$ 41,868,702**	**$ 4,878,000**	**$ 82,051,860**	**$ 64,806,331**

The Community Relations and Security Agreement and the Joint Venture Coordinating Committee Agreement, both executed in 2011, expired during the three months ended March 31, 2012. The agreements ended pursuant to termination clauses in the agreements.

In January 2012, the Company and NADECOR executed an agreement (the “Subscription Agreement”) which will result in the issuance of joint venture equity to the Company based on qualified expenditures. The Subscription Agreement will cause the Company to own a percentage of the issued and outstanding equity of King-king Gold and Copper Mines, Inc., the joint venture which will hold the Mineral Production Sharing Agreement (“MPSA”). This agreement was restated and amended in August 2012 in order to optimize the equity issuance process.

Benguet settlement expenditures refers to the costs of causing a former Project interest holder to relinquish its rights, the details of which are in the Company’s annual financial statements for the year ended December 31, 2011.

A reconciliation of the progress made towards the earn-in to the amounts invested in mining properties included on the accompanying statements of financial position is as follows:

Interim period financial disclosures are unaudited and presented in U.S. dollars unless otherwise noted

Reconciliation of Investment in mining property to earn-in	**September 30, 2012**	**December 31, 2011**
Earn-in balance	$ 82,051,860	$ 64,806,331
Depreciable property (earn-in in full on purchase)	(856,778)	(866,423)
Qualifying fundraising costs	(1,670,625)	(1,670,625)
Interest earned on Nadecor advances	(1,023,821)	-
Disallowed/reserved expenditures	493,063	2,381,736
Investment in mining property	**$ 78,993,698**	**$ 64,651,019**

Pursuant to MOU terms, NADECOR has a right to audit all expenditures reported by the Company towards earn-in. NADECOR has elected to audit all amounts expended and submitted for approval through June 30, 2012; expenditures for the three months ended September 30, 2012 have not yet been submitted. Approximately $49,000,000 of the earn in balance in the above table was approved as of September 30, 2012. Approximately $32,500,000 is currently under audit or within NADECOR's right to audit.

6. Related party transactions

Certain key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

The following related parties transacted with the Company in the reporting period of these Financial Statements. The terms and conditions of the transactions with key management personnel and their related parties are made at terms equivalent to those that prevail on similar transactions to non-key management personnel related entities at an arm's length basis.

(a) Transactions with Officers and Directors

The aggregate value of transactions with officers and directors was as follows:

	Nine months ended September 30,	
Compensation	**2012**	**2011**
Salaries and director compensation	$ 1,750,990	$ 1,744,672
Share-based compensation	1,656,160	4,237,408
Total	**$ 3,407,150**	**$ 5,982,080**

(b) Transactions with Other Related Parties

The aggregate value of transactions and outstanding balances with other related parties were as follows:

	Nine months ended September 30,	
Transactions	**2012**	**2011**
Services rendered:		
Norton Rose Canada LLP (i)	$ 122,725	$ 102,178
Reimbursement of third party expenses incurred on the Company's behalf:		
Russell Mining Corporation (ii)	299,958	52,228
Share-based payments		
Russell Mining and Minerals, ULC (ii)	-	317,000
Total	**$ 422,683**	**$ 154,406**

Related party receivable	September 30, 2012	December 31, 2011
Josephine Mining Corp. (iii)	$ 128,086	-
Russell Mining Corporation (iii)	55,992	-
Total	**$ 184,078**	**$ -**

Related party receivables are included in prepaids and other current assets on the accompanying Statement of Financial Position.

Related party balances payable	September 30, 2012	December 31, 2011
Norton Rose Canada LLP (i)	$ -	$ 16,346
Russell Mining Corporation (ii)	3,839	34,937
Total	**$ 3,839**	**$ 51,283**

i. Norton Rose Canada LLP acts as the Company's securities counsel and the partner of the account is also the Corporate Secretary.

ii. Russell Mining Corporation ("RMC") is the parent of Russell Mining and Minerals, ULC. ("RMMU"; formerly Russell Mining and Minerals, Inc. ("RMMI")), the Company's largest shareholder, which is party to several of the Company's agreements and has key managers in common with the Company. RMC assumed RMMU's former role in general and administrative activities at the Company's corporate headquarters.

iii. These companies receive accounting and clerical support from the Company's staff. Josephine Mining Corp. and RMC have directors in common with the Company, and share corporate headquarters. The aforementioned entities and the Company reimburse RMC for office rent and other general and administrative expenses and all entities advance certain shared expense payments to one another for administrative convenience.

(c) Advances to related party

The Company has advanced the U.S. dollar equivalent of $725,598 to King-King Gold and Copper Mines Inc. ("KKGCMI"), which is the joint venture company established to hold the rights to the Project. These funds are expected to be used for start-up costs when the joint venture is active. An additional advance to NADECOR of $360,000 was made during the three months ended September 30, 2012. The $360,000 advance to NADECOR may be repaid in cash or used towards earn-in on the project.

7. Warrant liability

Warrants issued during 2011 were deemed a derivative liability under IAS 32 because they are exercisable in Canadian dollars while the Company's functional currency is the U.S. dollar. The warrants are therefore required to be fair valued at each reporting date. At September 30, 2012, the fair value of the warrant liability was zero, a decrease of $316,267 from December 31, 2011. The assumptions used to value the liability at September 30, 2012, were as follows:

Black Scholes assumptions - valuation of derivative warrant liability at September 30, 2012	
Risk free interest rate (i)	1.08%
Expected volatility (ii)	80%
Expected life, years (iii)	0.13
Exercise price ($CDN)	$ 0.75
Expected dividend yield (iv)	0%

Interim period financial disclosures are unaudited and presented in U.S. dollars unless otherwise noted

i. Based on the Bank of Canada's published bond yields;

ii. Based on the volatility of 5 peer companies with similar equity structures;

iii. Based on contractual terms; and

iv. Based on management's expectation over the remaining term of the warrants.

All 14,737,500 warrants underlying the derivative warrant liability remained outstanding and exercisable at September 30, 2012 and were originally set to expire November 17, 2012, however, were extended through July 15, 2013 (Note 12).

8. Shareholders' equity

(a) Share capital

There were no share issuances during the nine months ended September 30, 2012; shares were issued subsequent to September 30, 2012 (Note 12).

(b) Share option reserves

The issued and outstanding options as at September 30, 2012, were as follows:

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2012	$ 0.20 - 1.54	16,958,334	$ 1.16
Stock options granted to officers, directors and employees	0.20 - 1.54	5,725,000	0.49
Stock options expired by officers, directors and employees	0.20	(1,850,000)	0.20
Stock options forfeited by officers, directors and employees	0.28 - 1.54	(916,665)	0.75
Balance, September 30, 2012		**19,916,669**	**$ 1.07**
Options exercisable, September 30, 2012		**11,783,350**	**$ 1.15**

The fair value of options granted during the period ended September 30, 2012, were estimated using the Black-Scholes option pricing model. The assumptions in the table below are based on the average of all grants issued during this time period and are as follows:

Black Scholes assumptions - share options issued during the nine months ended September 30, 2012	
Risk free interest rate (i)	1.23%
Expected volatility (ii)	74%
Expected life, years (iii)	3
Expected forfeiture rate (iv)	10%
Expected dividend yield (v)	0%

i. Based on the Bank of Canada's published bond yields;

ii. Based on the volatility of 5 peer companies;

iii. Based on contract terms;

iv. Management's estimate based on past forfeitures; and

v. Based on management's expectations over the next three to five years.

Of additions to share option reserves of approximately $2.1 million during the nine months ended September 30, 2012, $1.3 million was capitalized to investment in mining property and $0.8 million was expensed.

Interim period financial disclosures are unaudited and presented in U.S. dollars unless otherwise noted

The following share options were outstanding and exercisable as of September 30, 2012:

Exercise Price	Number Outstanding	Weighted Average Life (Years)	Weighted Average Exercise Price - (Outstanding)	Number Exercisable	Weighted Average Exercise Price - (Exercisable)
$ 1.54	10,841,667	3.45	1.54	6,950,007	$ 1.54
0.98	2,100,000	3.51	0.98	1,400,001	0.98
0.80	125,000	3.56	0.80	83,334	0.80
0.73	200,000	3.68	0.73	133,334	0.73
0.68	133,334	3.70	0.68	133,334	0.68
0.64	500,000	3.75	0.64	500,000	0.64
0.66	200,000	3.76	0.66	133,334	0.66
0.53	1,100,000	4.03	0.53	366,667	0.53
0.34	100,000	3.99	0.34	100,000	0.34
0.29	191,668	4.19	0.29	175,002	0.29
0.28	3,400,000	4.33	0.28	1,466,669	0.28
0.27	25,000	4.51	0.27	8,334	0.27
0.20	1,000,000	4.59	0.20	333,334	0.20
	19,916,669	**3.72**	**1.07**	**11,783,350**	**$ 1.15**

Subsequent to September 30, 2012, 7,838,000 options were granted to employees and directors (Note 12).

9. Commitments and contingencies

(a) NADECOR

The Company's commitments to NADECOR are described at Note 5.

(b) Rental agreement

The Company and RMMU are lessees in a three year office lease agreement, ending March 2015. Monthly payments of $16,000 are due through the term of the agreement in addition to small periodic escalations.

(c) Shares contingently issuable to RMMU

75,000,000 shares were issuable to RMMU contingent upon completion of the terms of the Company's recapitalization agreement with Ratel, which required the release of these shares on completion of a feasibility study (defined below) on the Project or a change in control. The recapitalization agreement defined the feasibility study as "a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered to a level of detail typical for a feasibility study of this nature." These shares were valued at $3,425,408 on January 7, 2011, the date on which the Company was recapitalized.

These shares were issued to RMMU subsequent to September 30, 2012 (Note 12).

(d) Other

Due to the nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the opinion of management, there are no matters that could have a material effect on these condensed consolidated interim financial statements which require additional disclosure. The Company is party to several consulting agreements with third parties, but does not have non-cancellable contractual commitments other than the office lease agreement described above.

Interim period financial disclosures are unaudited and presented in U.S. dollars unless otherwise noted

10. Capital management

The following table summarizes capital under the Company's capital management program:

	September 30, 2012	December 31, 2011
Cash and cash equivalents	$ 5,526,496	$ 24,656,885
Restricted cash	250,000	943,697
Warrant liability	-	316,267
Share capital	86,077,399	86,077,399
Share option reserves	8,764,742	6,701,148
Shares to be issued	3,425,408	3,425,408

Approximately $15,000 and $426,000 was held in foreign banks in the Netherlands and the Philippines at September 30, 2012, respectively. As of December 31, 2011, approximately $285,000 and $244,000 was held in the Netherlands and the Philippines bank accounts, respectively.

The Company has $250,000 (December 31, 2011 - $250,000) held by a large banking institution as collateral for the Company's credit cards. Restricted cash at December 31, 2011 also included the U.S. dollar equivalent of $693,697 in cash held in Philippine bank accounts, which was transferred to KKGCMI after December 31, 2011 (Note 6(c)).

The Company's objectives and continued financing of its commitments under its agreements with NADECOR (Note 5) are dependent on the ability to raise funds until mineral production commences. The Company is currently developing plans to address future liquidity and capital management risks.

No funding since inception has been raised through debt issuances. Management strategically times and limits equity issuances in order to limit the cost of capital until a BFS has been completed. Upon completion of a BFS, management intends to raise a significant amount of funds through a combination of debt and equity.

11. Earnings per share ("EPS")

(a) Basic EPS

Basic EPS is computed by dividing net loss for a period by the weighted average number of common shares outstanding during that period.

(b) Diluted EPS

Diluted EPS is computed by dividing net loss for a period by the diluted number of common shares. Diluted common shares include the effects of instruments, such as share options and warrants, which could cause the number of common shares outstanding to increase.

The Company reported net losses for the nine months ended September 30, 2012 and 2011; the Company has accordingly presented basic and diluted EPS, which are the same, on a single line in the statements of comprehensive loss. Diluted loss per share did not include the effect of share purchase options and warrants, as they were anti-dilutive.

12. Subsequent events

On October, 3, 2012, the Company announced the issuance of 75 million shares to RMMU. The shares represent the second tranche of shares issuable to RMMU pursuant to the Company's recapitalization agreement effected January 7, 2011 (Note 9(c)), and increased the issued and outstanding common shares outstanding to 400,258,334.

On October 10, 2012, the Company announced the formation of a strategic alliance with Queensberry Mining and Development Corp ("Queensberry") of the Philippines through a private placement of equity and agreements to acquire secondary shares. The private placement, which closed October 16, 2012, consisted of the issuance of 25 million units ("Units") at a price of $0.1883805 per Unit for total proceeds of $4.7 million. Each Unit is comprised of one common share and .3 of one common share purchase warrant (for a total of 7.5 million whole warrants); one whole warrant is exercisable at a price of $0.2563 for one year. Additionally, Queensberry may acquire up to 4.65 million shares prior to November 20, 2012, at $0.75 per share. The October private placement increased the issued and outstanding common shares to 425,258,334 and outstanding warrants to 22,237,500.

In October 2012, 7,834,500 options were granted to officers and directors of the Company, which increased the number of outstanding options to 27,584,501. The options have five year terms and have a weighted average exercise price of Cdn$0.40 per share.

On November 7, 2012 the Board extended the expiry date of the 14,737,500 warrants that were exercisable at CDN$0.75 from November 17, 2012 to July 15, 2013. Pursuant to Toronto Stock Exchange ("TSX") rules, the extension of the 3,437,500 warrants held by insiders is subject to disinterested shareholder approval at the next shareholder meeting. Additionally, the previously granted non-dilutive right held by Queensberry to acquire 4,650,000 shares at US$0.75 per share was also extended to July 15, 2013, subject to certain conditions, including TSX regulatory approval. No other terms of the warrants or non-dilutive rights were changed.