St. Augustine Gold and Copper Limited

Consolidated Financial Statements

As at and for the years ended December 31, 2013 and 2012
Presented in U.S. dollars

Dated as of March 24, 2014

Management's Responsibility for Financial Statements

In management's opinion, the accompanying consolidated financial statements of St. Augustine Gold and Copper Limited have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards. The determination of many assets and liabilities necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to March 24, 2014. Management is responsible for all information in the annual report and for the consistency, therewith, of all other financial and operating data presented in this report.

To meet its responsibility for reliable and accurate financial statements, management has established and monitors systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

The consolidated financial statements have been audited by Ernst & Young LLP, Chartered Accountants. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards. The Auditor's Report outlines the scope of its audit and sets forth its opinion.

St. Augustine Gold and Copper Limited's Audit Committee, consisting exclusively of independent directors, has reviewed these statements with management and the Auditors and has recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements herein.

"SIGNED"

Andrew Russell
President and Chief Executive Officer

"SIGNED"

JuliAnn Issler
Interim Chief Financial Officer

Spokane, Washington

March 24, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
St. Augustine Gold and Copper Limited

We have audited the accompanying consolidated financial statements of **St. Augustine Gold and Copper Limited**, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **St. Augustine Gold and Copper Limited** as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
March 24, 2014.

Chartered Accountants

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Notes to the consolidated financial statements

(Presented in U.S. dollars)

	Notes	December 31, 2013	2012
Assets			
Current assets			
Cash and cash equivalents		$ 6,293,357	$ 7,117,302
Restricted cash		250,100	250,000
Advances to NADECOR	4.A	-	1,137,512
Prepaids and other current assets		433,515	248,879
Total current assets		6,976,972	8,753,693
Non-current assets			
Investment in mineral property	3	48,045,958	81,347,929
Investment in NADECOR	4.E	40,487,609	-
Note receivable from NADECOR	4.D	350,194	-
Investment in joint ventures	5	811,619	-
Notes receivable	6	846,180	914,040
Property and equipment	7	543,526	848,541
Other non-current assets		937,078	500,000
Total non-current assets		92,022,164	83,610,510
Total assets		**$ 98,999,136**	**$ 92,364,203**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued wages		$ 2,643,026	$ 1,846,503
Warrant liability	8	-	755,509
Due to related parties	9.B	27,267	20,167
Total current liabilities		2,670,293	2,622,179
Shareholders' equity			
Share capital	10.A	106,693,756	92,399,045
Share option reserves	10.B	10,990,066	9,921,503
Warrant reserves	10.C	-	1,695,517
Accumulated deficit		(17,593,396)	(14,321,960)
Accumulated other comprehensive income (loss)		(3,761,583)	47,919
Total shareholders' equity		96,328,843	89,742,024
Total liabilities and shareholders' equity		**$ 98,999,136**	**$ 92,364,203**
Commitments and contingencies	15		
Subsequent events	17		

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

Approved on behalf of the Board of Directors:

"SIGNED"
Terry Krepiakevich
Director

"SIGNED"
Max V. Anhoury III
Director

(Presented in U.S. dollars)

		Year ended December 31,	
	Notes	**2013**	**2012**
Operating expenses			
Wages and share-based payments	10.B	$ 2,136,997	$ 2,703,008
General and administrative costs		1,756,382	2,092,872
Total operating expenses		$ 3,893,379	$ 4,795,880
Other income and expense			
Interest income		$ 35,230	$ 19,636
Change in fair value of warrant liability	8	755,509	(439,242)
Foreign exchange gain (loss)		(68,796)	49,246
Total other income		$ 721,943	$ (370,360)
Loss from investment in Nadecor	4.E	50,000	-
Loss from investments in joint ventures	5	-	-
Net loss before income tax expense		**$ 3,221,436**	**$ 5,166,240**
Income tax expense	11	50,000	186,983
Net loss		**$ 3,271,436**	**$ 5,353,223**
Foreign exchange translation loss (gain)		3,809,502	(47,919)
Total comprehensive loss		**$ 7,080,938**	**$ 5,305,304**
Net loss per common share, basic and diluted		$ 0.01	$ 0.02
Weighted average common shares outstanding, basic and diluted		464,853,114	346,491,211

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

St. Augustine Gold and Copper Limited
Consolidated statements of cash flows
For the years ended December 31, 2013 and 2012
(Presented in U.S. dollars)

	Notes	Year ended December 31, 2013	2012
Cash flows from operating activities			
Net loss		$ (3,271,436)	$ (5,353,223)
Share-based compensation expense, net of capitalized amounts	10.B	607,935	1,386,794
Non-cash fair value adjustment of warrant liability	8	(755,509)	439,242
Effects of foreign currency changes		(136,016)	11,741
Deduct interest income (reported under investing activities)		(35,230)	(19,636)
Loss from investment in Nadecor	4.D	50,000	-
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		(63,462)	70,142
Advances to joint ventures	5	(121,274)	-
Increase in other non-current assets		(437,078)	(322,313)
Income tax payments		(50,000)	(63,017)
Net cash used by operating activities		(4,212,070)	(3,850,270)
Cash flows from investment activities			
Investment in NADECOR	4.E	(43,520,407)	-
Increase in investment in mining property		(9,042,551)	(14,604,197)
Reimbursement of invested amounts	4.B	43,520,407	-
Note receivable from NADECOR	4.D	(350,194)	-
Decrease in restricted cash		-	693,697
Investment in joint ventures	5.A	(115,619)	-
Advances to NADECOR	4.A	-	(1,137,512)
Purchase of property and equipment	7	(11,242)	(241,270)
Changes in non-cash investing working capital		853,623	(3,015,920)
Interest income		35,230	19,636
Net cash used by investing activities		(8,630,753)	(18,285,566)
Cash flows from financing acitvities			
Proceeds from common stock and warrants, net of issuance costs	10	12,599,194	4,591,755
Net cash provided by financing activities		12,599,194	4,591,755
Net decrease in cash and cash equivalents		(243,629)	(17,544,081)
Effect of exchange rate changes on cash		(580,316)	4,498
Cash and cash equivalents, beginning of year		7,117,302	24,656,885
Cash and cash equivalents, end of year		**$ 6,293,357**	**$ 7,117,302**
Comprised of:			
Cash		$ 6,006,512	$ 5,658,050
Cash equivalents		286,845	1,459,252
Total cash and cash equivalents, end of year		**$ 6,293,357**	**$ 7,117,302**

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

St. Augustine Gold and Copper Limited
Consolidated statements of changes in shareholders' equity
For the years ended December, 2013 and 2012
(Presented in U.S. dollars)

	Notes	Shares	Share capital	Share option reserves	Warrant reserves	Shares to be issued	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2012		325,258,334	$ 86,077,399	$ 6,701,148	$ -	$ 3,425,408	$ (8,968,737)	$ -	$ 87,235,218
Release of shares to be issued	10.A	75,000,000	3,425,408	-	-	(3,425,408)	-	-	-
Private placement of units, net	10.A	25,000,000	2,896,238	-	1,695,517	-	-	-	4,591,755
Share-based compensation		-	-	3,220,355	-	-	-	-	3,220,355
Foreign exchange translation gain		-	-	-	-	-	-	47,919	47,919
Net loss		-	-	-	-	-	(5,353,223)	-	(5,353,223)
Balance, December 31, 2012		425,258,334	$ 92,399,045	$ 9,921,503	$ 1,695,517	$ -	$ (14,321,960)	$ 47,919	$ 89,742,024
Warrant exercises	10.C	7,500,000	3,569,711	-	(1,695,517)	-	-	-	1,874,194
Share-based compensation		-	-	1,068,563	-	-	-	-	1,068,563
Private placement of shares, net	10.A	55,000,000	10,725,000	-	-	-	-	-	10,725,000
Foreign exchange translation loss		-	-	-	-	-	-	(3,809,502)	(3,809,502)
Net loss		-	-	-	-	-	(3,271,436)	-	(3,271,436)
Balance, December 31, 2013		487,758,334	$ 106,693,756	$ 10,990,066	$ -	$ -	$ (17,593,396)	$ (3,761,583)	$ 96,328,843

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

1. Organization and description of business

St. Augustine Gold and Copper Limited (the "Company" or "SAGC") was incorporated on January 27, 2010, in the British Virgin Islands. The address of the Company'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 focused on the acquisition, development and exploration of mineral properties. The Company (through a related party company, prior to the Company's incorporation) and Nationwide Development Corporation ("NADECOR"), a Philippine corporation, entered into a Letter of Intent 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, through direct and indirect investments, 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 MOU will be superseded following fulfillment of the terms of an agreement executed during 2013 (Note 4.C).

The Project is a copper-gold mineral reserve 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 have been completed by various parties. A draft Environmental Impact Statement and a draft Declaration of Mining Project Feasibility were completed and submitted to regulatory agencies for review and a NI 43-101-compliant Preliminary Feasibility Technical Report has been completed and published on SEDAR.

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.

These consolidated financial statements ("Financial Statements") were authorized for issue by the Board of Directors on March 24, 2014.

2. Significant accounting policies

A. Statement of compliance

These Financial Statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting periods ended December 31, 2013.

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 valuations, share-based payments and investments. The use of "₱" refers to Philippine pesos and "CDN$" refers to Canadian dollars.

C. Basis of consolidation

The Financial Statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation.

D. Segment reporting

The Company operates in a single reportable operating segment, which is the development of mineral properties. The Company's sole mineral property interest, the King-king project, is located in the Philippines.

E. 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 income 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.

The most significant judgments and estimates relate to the following:

i. Share-based payments

Share based payment values are calculated based on volatility, risk free interest rates, the fair value of the Company's shares on the grant date, exercise price, expected dividend yield, expected forfeiture rate and expected life of the instrument.

ii. Fair values of warrants

The initial recognition of warrants is based on applicable inputs similar to those of share-based payments. When warrants are classified as liabilities, the updated values of relevant inputs are used to calculate the fair value of the warrant liability at each reporting date. Warrants recorded in equity are carried at their historical grant-date value until exercised.

iii. Deferred taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iv. Determination of cash generating units

Cash generating units are identified at the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Since inception, the Company has not generated cash from operations; its sole potential cash generating unit is its interest in the Project mineral asset. This value is held through the Company's investment in mineral property and investment in NADECOR.

v. Impairment assessment of investment in mineral property

Management determines at each reporting period whether there are any indicators of impairment. If there are indicators, the carrying value of the investment in mining property is compared to the recoverable amount to calculate the amount of the impairment. If no indicators of impairment are identified, no impairment test is performed. At December 31, 2013, the Company determined that there are no indicators of impairment. In making this determination, management believes that the Company and NADECOR have complied with the terms of the Mineral Production Sharing Agreement ("MPSA") agreement with the Philippine government and that the Company and NADECOR will be able to continue to obtain, as needed, the approvals from the government that are required under the MPSA in order to develop and complete the King-king project, including the renewal of the MPSA in 2017.

vi. Depreciation and impairment of property and equipment

Management estimates the useful life of property and equipment for depreciation. Indicators of impairment are subject to management's evaluation of the impact of various events. When acquisitions qualify for earn-in, the Company charges the full cost to earn-in. As earn-in-qualified equipment is depreciated, the depreciation charges increase the investment in mineral property and do not affect net loss. Accordingly, at the end of the life of the property or equipment, the full cost of property and equipment is reflected in the Company's investment in mineral property asset. Property and equipment which does not qualify for earn-in is depreciated through net loss using the same assumptions and judgments as earn-in-qualifying property and equipment.

vii. Significant influence over associates

Management deems the Company to have significant influence over an associate when the Company is able to influence the financial and operating decisions of the associate.

F. Functional and presentation currency

The Company's functional and presentation currency is the U.S. dollar ("$"). The functional currency of one subsidiary with material activity is the Philippine peso.

G. Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to U.S. dollars at the average exchange rate for the period. Monetary assets and liabilities denominated in foreign currencies are translated to U.S. dollars at the period end exchange rate. Foreign currency differences arising on translation are recognized in comprehensive loss in the period in which they arise.

ii. Foreign Operations

Assets and liabilities of foreign operations are translated into U.S. dollars at period end exchange rates while expenses are translated using average rates for the period. Gains and losses from the translation are deferred and included in the cumulative translation adjustment which is part of accumulated other comprehensive income.

H. Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statement of comprehensive loss.

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

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates at the end of the period, and which are expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

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.

I. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less.

J. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment is related to the actual costs and expenses associated with placing the property in service. Property and equipment is classified by type (building or leasehold improvement, vehicle, equipment, and furniture and fixtures) and by useful life (3, 5, or 10 years). All property and equipment has been depreciated on a straight-line basis over the useful life of the asset. When components of an item of property and equipment have different useful lives, they are depreciated separately. The gain or loss on disposal of any item of property is determined by comparing the proceeds from disposal with the carrying amount of the property and any gain or loss is recognized in the Financial Statements. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each reporting period, and adjusted prospectively, if appropriate.

K. Investment in mineral property

The Company's directed purpose is to develop the Project under an agreement with NADECOR and will ultimately receive up to an aggregate 60% interest in a joint venture based upon certain required expenditures. Those expenditures which are directly allowed under the MOU are included in the investment in mineral property account. Amounts not allowed to earn-in, following NADECOR's audit, are either reported in the investment in mineral property under IFRS 6 – Exploration for and Evaluation of Mineral Resources, or expensed, depending on the character of the expenditure. Under the terms of the MOU, accrued amounts earn-in upon cash settlement and NADECOR's audit. As more fully described in Note 4(C), an agreement was signed in October 2013, which will supersede the terms of the MOU.

Direct costs related to the acquisition, development and exploration of the Project are capitalized until the viability of the property is determined. Once economic viability is established, qualifying expenditures will be capitalized in accordance with relevant standards until production commences. Management periodically reviews the recoverability of the capitalized value of the Project, taking into consideration the results of exploration activities, estimated mineral market prices, reports of experts and other relevant information. If the Project is to be abandoned or is determined to be impaired, the investment will be adjusted to fair value.

L. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to dispose. 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. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

M. Financial instruments

All financial instruments are measured at fair value and classified into one of the following categories; loans and receivables; assets held to maturity; assets available for sale; fair value through profit or loss and other financial liabilities.

Financial instruments that are classified as fair value through profit or loss or available-for-sale are re-measured each reporting period at fair value with the resulting gain or loss recognized in net income or loss and other comprehensive income or loss, respectively. All other financial instruments are initially accounted for at fair value and subsequently measured at amortized cost using the effective interest rate method with foreign exchange gain and losses recognized immediately in net income or loss.

Financial instruments are measured at fair value and categorized into one of three hierarchy levels (Note 14).

i. Loans and receivables

Other current assets and other non-current receivables, as reported on the consolidated statements of financial position, include tax and other receivables; these items and the Company's notes receivable, advances receivable and related party accounts have fixed or determinable payments that are not quoted in an active market, and are classified as loans and receivables.

Loans and receivables are initially recognized at the fair value and subsequently carried at amortized cost less impairment losses. Impairment losses are based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method calculates the amortized cost of loans and receivables and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the loan and receivable, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

ii. Financial assets at fair value through profit or loss ("FVTPL")

FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes cash and cash equivalents. FVTPL are carried in the consolidated statements of financial position at fair value, with changes in fair value recognized in the consolidated statement of comprehensive loss.

iii. Impairment of financial assets

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when 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.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it has become probable that the borrower will enter bankruptcy or financial reorganization; or,
- a significant or prolonged decline in the fair value of an available for sale security below its cost.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets is directly reduced by the impairment loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

iv. Derecognition of financial assets

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or,
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

v. Equity and financial liabilities

Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the appropriate reporting standard.

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

Financial liabilities

Financial liabilities include contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities under potentially unfavorable conditions. Financial liabilities also include contracts which may be settled in an entity's equity instruments.

One issuance of the Company's outstanding warrants was deemed to be derivative instrument and is reported as a financial liability remeasured through loss at December 31, 2013 and 2012 (Note 8).

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company has classified accounts payable and due to related parties as other financial liabilities.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

N. Share-based payments

The stock option plan allows the Company's management, consultants and other qualified individuals to acquire shares of the Company. The fair value of share purchase options granted is recognized as compensation expense or capitalized to investment in mineral property depending on the nature of the services provided, with a corresponding increase in equity. The fair value of share-based payments is calculated using the Black-Scholes model. Equity attributable to share-based compensation is reclassified as share capital equity upon exercise.

The cost of equity-settled transactions is recognized, together with a corresponding increase in share option reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest. When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. Additional charges are recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. If a new award is substituted for a cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

O. Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed in a manner similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

P. Leases as lessee

The Company accounts for leases for which it is the lessee as either finance or operating leases. The primary factor in classifying a lease is whether the agreement between the lessee and lessor transfers substantially all the risks and rewards incidental to ownership. The following factors which would classify a lease as a finance lease under IAS 17 - Leases:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Finance leases are initially recognized as assets and liabilities at fair value, and the minimum lease payments are subsequently adjusted for the apportionment between finance charges and the outstanding liability. Operating leases are recognized on a straight-line basis over the life of the lease, unless another systematic basis is more representative of the time pattern of the lessee's benefit.

Q. Provisions

The Company reports provisions when the following conditions are met:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Whether or not a present obligation exists is determined by examining all available evidence, and whether the evidence suggests that an obligation is more likely than not present.

R. Investments in other entities

The Company accounts for investments below the threshold of having significant influence at fair value, depending on the nature of the investment. If the Company moves beyond the threshold of having significant influence, the cost of the investment is deemed to be the initial cost as the basis for the use of the equity method of accounting for the investment.

If the Company has significant influence over an investee as defined under IAS 28 – Investments in Associates and Joint Ventures, the investment is initially recognized at cost and is adjusted periodically to reflect the Company's portion of the investees' comprehensive profit or loss through the Company's statement of comprehensive profit or loss. The Company's share of profit or loss of an associate is shown on the face of the statement of comprehensive loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the statement of comprehensive profit or loss.

If the Company is party to a joint arrangement, an assessment is made as to whether the relationship is a joint venture or a joint operation. This determination is driven by the Company's rights and obligations under the agreement that formed the joint arrangement. Joint operations are recognized by the Company to the extent of the Company's share of the assets, liabilities, revenues and expenses relating to its involvement in the joint operation. Joint ventures are accounted for using the equity method.

Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

S. Recent accounting pronouncements

i. International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21 - Levies

In May 2013, the IASB issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of applying IFRIC 21 on its consolidated financial statements.

ii. 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 adopt the amendments to IAS 32 in the financial statements effective January 1, 2014. Management is currently evaluating the impact of the changes to result from the adoption of IAS 32 and does not expect a material impact to the Company's financial statements.

iii. IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36

The amendments are effective for annual periods beginning on or after January 1, 2014. The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair valueless costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets within definite useful lives. This requirement has been deleted by the amendment. Management is currently evaluating the impact of the changes to result from the adoption of IAS 36 and does not expect a material impact to the Company's financial statements.

iv. IFRS 9 - Financial Instruments

This guidance 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 and new rules for hedge accounting; as a result of amendments in the current year there is no set date for adoption, however, early adoption is 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.

T. Application of new and revised accounting standards

i. IFRS 7 – Financial Instruments Disclosures

This guidance requires adoption of amendments for annual periods beginning January 1, 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements.

ii. IFRS 10 - Consolidated Financial Statements

This guidance supersedes 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.

iii. IFRS 11 - Joint Arrangements

This guidance supersedes the existing standard IAS 31 - Joint Ventures effective for annual periods 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. The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.

iv. IAS 28 - Investments in Associates and Joint Ventures

Certain amendments were made to provide guidance for an investment in associate or joint venture and this guidance is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. It describes the application of the equity method to investments in joint ventures in addition to associates.

v. IFRS 12 - Disclosure of Interests in Other Entities

This guidance 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.

vi. IFRS 13 - Fair Value Measurement

This guidance 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.

vii. IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company’s financial position or performance. The amendment became effective for annual periods beginning on or after July 1, 2012.

The application of these new and revised accounting standards did not cause material changes to the Financial Statements except as disclosed in the notes to the Financial Statements.

Financial disclosures are presented in U.S. dollars unless otherwise noted

3. Investment in mineral property

The Company's investment in mineral property is secured under its rights under the MOU. Management expects to fulfill the terms of the Project Framework Agreement ("PFA") (Note 4.C), which will supersede the terms of the MOU. However, until the PFA is substantially enacted, the MOU is the current contract in force underlying this asset at December 31, 2013.

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. The underlying earn-in accumulates as expenditures are made, along with other milestones and earn-in commitments. 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% potential interest in the Project, the Company will spend, or pay to NADECOR, a minimum of $83,000,000, as outlined by the agreement summarized below and subject to adjustments for outcomes contemplated in the MOU. A significant variable which can change this minimum commitment is the planned tonnage throughput of mine operations. In the event that the Company's minimum commitment increases, the Company and NADECOR share in the economic benefit of cost savings against CapEx at the ratio of the earn-in. The Company also incurs costs related to the project which do not qualify for progress towards the earn-in. The expenditure requirements and progress towards the payments are summarized as follows:

Item	Earn-in amount	December 31, 2013	December 31, 2012
Exclusivity payment to NADECOR (i)	$ 400,000	$ 400,000	$ 400,000
Initial payment to NADECOR (ii)	3,100,000	3,100,000	3,100,000
Initial BFS funding (iii)	30,000,000	30,000,000	30,000,000
Incremental BFS funding (iv)	5,000,000	5,000,000	5,000,000
Incremental BFS funding (iv)	8,500,000	8,500,000	8,500,000
Payments to NADECOR (v)	4,000,000	1,231,000	1,878,000
CapEx funding (vi)	32,000,000	5,621,614	36,838,828
Totals	$ 83,000,000	$ 53,852,614	$ 85,716,828

The Company's earn-in decreased from December 31, 2012 to December 31, 2013 due to amounts reimbursed to the Company by NADECOR (Notes 4.B and 4.C).

(i) Direct payment to NADECOR made in 2009;

(ii) $3,000,000 was paid in 2010. The remaining $100,000 was paid in 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 $30 million required to be expended following the PSIA ;

(v) The timing of direct payments to NADECOR is contingent on events contemplated in the MOU. During 2011, $981,000 was paid, $250,000 was paid during 2013, and the balance is expected to be paid if the terms of the PFA (Note 4.C) are not fulfilled; 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. PFS results indicate throughput would increase the Company's CapEx commitment should the terms of the PFA (Note 4.C) not be completed.

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

Financial disclosures are presented in U.S. dollars unless otherwise noted

Reconciliation of Investment in mining property to earn-in	December 31, 2013	December 31, 2012
Investment in mining property	$ 48,045,958	$ 81,347,929
Depreciable property (earn-in in full on purchase)	500,611	951,004
Qualifying fundraising costs	1,788,362	1,788,363
Other (i)	3,517,683	1,629,533
Estimated earn-in balance	**$ 53,852,614**	**$ 85,716,829**

(i) Other items include disallowed earn-in expenditures, non-cash items and other differences due to accounting guidance and differences between the Company's accounting policies and earn-in calculations.

NADECOR audited earn-in expenditures and amounts remitted under the Reimbursement Agreement (Note 4.B) prior to the execution of the PFA (Note 4.C). The provisions of the Reimbursement Agreement and the PFA included NADECOR's recognition of a minimum of $47,000,000 of the Company's expenditures as valid and NADECOR's waiver and/or expiration of its right to further expenditure audits thereon. In addition, only those expenditures made by the Company following the signing of the PFA could be subject to further audit by NADECOR, should the terms of the PFA not be fulfilled.

There were no indicators of impairment identified and no impairment loss recognized during the years ended December 31, 2013 or 2012, with respect to the investment in mineral property.

4. Transactions with Nationwide Development Corporation ("NADECOR")

A. Advances to NADECOR

Date of advance	December 31, 2013	December 31, 2012
February and March 2012 (i)	$ -	$ 738,512
July 2012 (ii)	-	360,000
October 2012 (ii)	-	39,000
Total	$ -	$ 1,137,512

(i) In May 2011, the Company advanced ₱30,000,000 (approximately $696,000) to a bank account which is in NADECOR's name but was controlled by the Company to fund future operating expenses. During 2012, the funds were transferred to an account in the name of King-king Gold and Copper Mines Inc. ("KGCMI"), an entity that was wholly owned by NADECOR at the time of the transfer. During 2013, the Company secured an equity interest in KGCMI (Note 5.A), and the advance was reclassified to the Company's investment in KGCMI.

(ii) In June 2012, the Company agreed to advance $399,000 to NADECOR. The advance earned a nominal amount of interest and was payable to the Company on June 22, 2013; however on April 9, 2013, the Company and NADECOR executed the Reimbursement Agreement (Note 4.B), and the amount was repaid prior to the maturity date.

B. Reimbursement Agreement

In April 2013, the Company and NADECOR executed an agreement (the "Reimbursement Agreement") whereby NADECOR would reduce the Company's earned-in amounts classified as CapEx expenditures which were made by the Company in advance of or in excess of the schedule contemplated in the MOU. NADECOR agreed to remit approximately $40.7 million, payable in tranches. The agreement terms have been fulfilled.

C. Project Framework Agreement ("PFA")

On October 3, 2013, the Company, Nadecor and Queensberry Mining and Development Corp. ("Queensberry") executed the PFA. In November 2013 NADECOR's shareholders ratified the execution and implementation of the PFA. The Company received shareholder approval and conditional Toronto Stock Exchange approval in December 2013. The PFA's purpose is to restructure and align NADECOR and the

Company's financial interests in the Project. Upon completion of the PFA's terms, it will supersede the MOU and related agreements. The primary terms of this agreement include the following:

- The Company will:
  - acquire 100% of a newly created milling company (KingKing Milling Corporation; "MillingCo") from NADECOR by issuing debt payable to NADECOR. MillingCo was incorporated February 7, 2014;
  - provide funding to build the mill facility;
- NADECOR established a mining company (KingKing Mining Corporation; "KMC") owned 60% by NADECOR and 40% by the Company (in accordance with Philippine nationality requirements). NADECOR is required to transfer the MPSA into KMC (Note 5.B);
- MillingCo and KMC will execute an ore sales agreement, making MillingCo the exclusive buyer of KMC's ore;
- MillingCo will lend KMC the funds necessary to build mining operation facilities;
- The Company will extend a credit facility to NADECOR of up to ₱860 million (approximately $20 million), subject to available funds;
- NADECOR will reimburse $2.8 million in Project expenditures to the Company under terms similar to the terms of the Reimbursement Agreement (Note 4.B);
- NADECOR's shareholders will acquire the receivable from the Company as a dividend;
- The Company will settle its payable to NADECOR's shareholders in exchange for cash or Company shares from treasury (cash or share settlement is at NADECOR shareholders' discretion), up to a maximum issuance of 324,568,751 shares;
- NADECOR acknowledges that the Company has earned-in to a 50% economic interest in the Project, which is held through direct and indirect interests compliant with Philippine laws; and
- The PFA proposes for the Company to apply for a secondary public listing of its shares on the Philippine Stock Exchange.

D. Note receivable from NADECOR

At December 31, 2013, the Company has advanced $350,194 to NADECOR under the terms of the credit facility established by the PFA (December 31, 2012 – nil).

E. Investment in NADECOR

On March 15, 2013, the Company executed an agreement with NADECOR (the "NADECOR Subscription") whereby the Company acquired 25% of NADECOR's common shares for ₱1.8 billion (approximately $43.5 million). The subscription required the Company to pay a first tranche ("Initial Amount") of ₱40.56 million, dependent on NADECOR's provision of certain documents ("Initial Conditions Precedent"). The Initial Conditions Precedent were satisfied in April 2013, and the Company remitted payment for the Initial Amount to NADECOR of approximately $960,000 (approximately ₱41.2 million). As at December 31, 2013, the Company had remitted $43,520,407 (₱1.8 billion) to NADECOR, and received 3 billion shares of NADECOR, which represents 25% of NADECOR's issued and outstanding common stock.

The Company nominated two executive officers of the Company as NADECOR board members at NADECOR's August 2013 Annual General Meeting, who were elected. This event caused the Company's investment in NADECOR to be classified as an investment in an associate using the equity method; accordingly, the Company recorded its pro-rata share of NADECOR's comprehensive loss during the year ended December 31, 2013, of $50,000.

NADECOR's ability to transfer funds to the Company in the form of cash dividends is limited by law while NADECOR has an accumulated deficit. The law does not have significant restrictions on NADECOR`s ability to repay Philippine loans or advances made by the Company.

Summarized below is the summarized financial information of NADECOR for the period from August 19, 2013, to December 31, 2013, acknowledging fair value adjustments made at the date of the acquisition.

Item		December 31, 2013
Current assets	$	503,366
Non-current assets		167,052,892
Current liabilities		(2,786,038)
Non-current liabilities		(2,819,786)
Net assets	$	161,950,434
Share of net assets		25%
Carrying amount on statement of financial position		40,487,609
Net loss	$	200,000
Foreign exchange translation loss		11,931,194
Comprehensive loss	$	12,131,194
Share of comprehensive loss		25%
Proportionate share of net loss		50,000
Proportionate share of other comprehensive loss		2,982,798

5. Investments in joint ventures

The Company is invested in two joint ventures.

A. King-king Gold and Copper Mines, Inc. (“KGCMI”)

The Company has invested cash totaling $752,913 in KGCMI as at December 31, 2013, in exchange for 40% of KGCMI’s voting common shares. The Company has also appointed 2 of 6 board seats of KGCMI. Of the Company’s investment in KGCMI, $696,000 was previously classified as an advance to NADECOR (Note 4.A), and was reclassified into an investment account upon the Company’s execution of the NADECOR Subscription (Note 4.D).

KGCMI was incorporated to become the joint venture entity which will hold the rights to develop and operate the Project. However, NADECOR is arranging for a new entity, KingKing Mining Corporation (Note 5.B), to hold the rights to develop and operate the Project. The assets and liabilities of KGCMI will be distributed to the newly formed entity. The Company accounts for this investment using the equity method; accordingly, the investment will be adjusted for the Company’s share of profit and loss at each reporting period. As a Project site operating entity, the vast majority of KGCMI’s expenses are capitalized, and the Company did not report loss attributable to KGCMI in the Financial Statements.

KGCMI’s primary asset was approximately $480,000 in cash as at December 31, 2013, and its liabilities consist of approximately $230,000 in trade payables for ongoing general and administrative functions.

B. KingKing Mining Corporation (“KMC”)

KMC was incorporated on October 30, 2013, to take KGCMI’s (Note 5.A) role as the entity which will hold the rights to develop and operate the Project. The Company had invested $58,706 in KMC at December 31, 2013.

The total amount receivable from KGCMI and KMC is $121,274.

6. Notes receivable

The Company holds notes receivable from former employees of the Company (under prior management), which were exchanged for 2 million shares of the Company. The notes are denominated in Canadian dollars and are reported at the translated U.S. dollar amount of $846,180 (2012 - $914,040). 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 23, 2015.

7. Property and equipment

	Vehicles	Furniture and fixtures	Equipment	Buildings and leasehold improvements	Totals
Cost balance, January 1, 2012	$ 637,383	$ -	$ 245,183	$ 121,618	$ 1,004,184
Additions	-	141,221	91,411	8,638	241,270
Disposals	-	-	(1,564)	-	(1,564)
Balance, December 31, 2012	637,383	141,221	335,030	130,256	1,243,890
Additions	-	-	11,242	-	11,242
Disposals	-	(1,930)	(23,720)	(44,514)	(70,164)
Balance, December 31, 2013	637,383	139,291	322,552	85,742	1,184,968
Accumulated depreciation, January 1, 2012	95,791	-	34,465	7,505	137,761
Additions	110,888	21,226	97,366	28,194	257,674
Disposals	-	-	(86)	-	(86)
Balance, December 31, 2012	206,679	21,226	131,745	35,699	395,349
Additions	112,291	43,353	105,033	26,908	287,585
Disposals	-	(892)	(20,847)	(19,753)	(41,492)
Balance, December 31, 2013	318,970	63,687	215,931	42,854	641,442
Net book value, December 31, 2012	**$ 430,704**	**$ 119,995**	**$ 203,285**	**$ 94,557**	**$ 848,541**
Net book value, December 31, 2013	**$ 318,413**	**$ 75,604**	**$ 106,621**	**$ 42,888**	**$ 543,526**

There were no indicators of impairment identified and no impairment loss recognized during the year ended December 31, 2013 or 2012, with respect to property and equipment.

8. Warrant liability

The Company issued 14,737,500 whole warrants as part of a 2011 private placement of equity; they were deemed a derivative liability under IAS 32 because they were exercisable in Canadian dollars, while the Company's functional currency is the U.S. dollar. The information in this note relates only to warrants treated as a derivative liability and not warrants recorded in shareholders' equity (Note 10.C).

The warrants expired unexercised in July 2013.

The assumptions used to calculate the value of the liability at December 31, 2012, were as follows:

Black Scholes assumptions - derivative		
Input	**December 31, 2012**	**Basis of input**
Risk free interest rate	1.14%	Bank of Canada's published bond yields
Expected volatility	135%	The Company's historical volatility
Expected life, years	0.63	Contract terms
Exercise price ($CDN)	$ 0.75	Contract terms
Expected dividend yield	0%	Management's expectation over the remaining term of the warrants

9. 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.

Financial disclosures are presented in U.S. dollars unless otherwise noted

A. Transactions with officers and directors

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

	Year ended December 31,	
Compensation	**2013**	**2012**
Officer salaries and director compensation	$ 3,004,648	$ 3,302,720
Share-based compensation	1,000,990	2,746,909
Total	**$ 4,005,638**	**$ 6,049,629**

B. Transactions with Other Related Parties

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

	Year ended December 31,	
Transactions	**2013**	**2012**
Services rendered:		
Norton Rose Canada LLP (i)	$ 217,361	$ 220,954
Reimbursement of third party expenses incurred on the Company's behalf:		
Russell Mining Corporation (ii), (iii)	188,123	349,570
Total	**$ 405,484**	**$ 570,524**

	Year ended December 31,	
Transactions	**2013**	**2012**
Charges for reimbursement from:		
Russell Mining Corporation (ii), (iii)	$ 332,443	$ 144,777
Josephine Mining Corp. (iii)	44,384	119,192
Casa Grande Resources LLC (iii)	485,245	-
Total	**$ 862,072**	**$ 263,969**

Related party receivable	**December 31, 2013**	**December 31, 2012**
Josephine Mining Corp. (iii)	$ 173,577	$ 136,026
Russell Mining Corporation (ii), (iii)	21,033	2,904
Total	**$ 194,610**	**$ 138,930**

Related party balances payable	**December 31, 2013**	**December 31, 2012**
Norton Rose Canada LLP (i)	$ 27,267	$ 20,167

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

(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 RMMU, 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 has assumed RMMU’s former role in general and administrative activities at the Company’s corporate headquarters. The Company is a sub-lessee to RMC’s office lease.

(iii) These companies receive accounting and clerical support from the Company’s staff. Josephine Mining Corp., RMC and Casa Grande Resources LLC have management 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.

10. Shareholders' equity

A. Share capital

In 2012, the Company issued 75 million shares that were due to RMC upon completion of a feasibility study on the Project. The terms of the issue 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 the date on which the Company was recapitalized; this amount was reclassified into share capital upon their issuance.

A private placement, which closed October 16, 2012, consisted of the issuance of 25 million units ("Units") at a price of $0.19 per Unit for proceeds of $4,709,493, net of issue costs of $117,738. Each Unit was comprised of one common share and 0.3 of one common share purchase warrant (for a total of 7.5 million whole warrants); one whole warrant was exercisable at a price of $0.2563.

In January 2013, the warrant holder from the Company's common share unit issuance in October 2012, Queensberry, exercised 3,750,000 whole warrants at $0.2563 per share for proceeds to the Company of $937,098, net of issue costs of $24,027.

In April 2013, the Company issued 3,750,000 shares pursuant to a warrant exercise by Queensberry for gross proceeds of $937,098, net of issue costs of $24,027. This exercise and Queensberry's January 2013 exercise represent all 7 million warrants issued to Queensberry in the October 2012 private placement.

In May 2013, the Company and Queensberry executed an agreement whereby Queensberry increased its investment in the Company by 55,000,000 shares at $0.20 per share, for gross proceeds of $11,000,000; the related issuance costs were $275,000.

B. Share option reserves

The Company has a share option plan approved by the Company's shareholders that allows the Board of Directors to grant options to employees, officers, independent contractors, and directors. Shares reserved and available for grant and issuance equals 10% of the total issued and outstanding common shares as calculated from time to time. Under the plan, the exercise price of each option cannot be less than the market price of the Company's stock on the date of grant. The options are granted for a term determined by the board of directors. Options generally expire 90 days following employment termination and vest over a two year period, although individual option contract terms may change the standard terms under the plan at the discretion of the Board of Directors.

Share option reserves totalled $10,990,066 at December 31, 2013 (December 31, 2012 - $9,921,503), equalling charges of $1,068,563 during 2013 (2012 - $3,220,355); of this amount, approximately $607,935 was expensed and $460,628 was capitalized to the investment in mineral property (2012 - $1,386,794 and $1,833,561, respectively).

Financial disclosures are presented in U.S. dollars unless otherwise noted

i. Continuity schedule of stock options (dollars in CDN$)

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2012		16,958,334	$ 1.16
Grants	$0.20 - 1.54	13,559,500	0.44
Expirations	0.20	(1,850,000)	0.20
Forfeitures	0.28 - 1.54	(1,466,667)	0.82
Balance, December 31, 2012		**27,201,167**	**$ 0.88**
Grants	$0.20 - 0.30	400,000	0.24
Forfeitures	$0.25 - 1.54	(6,972,333)	1.32
Balance, December 31, 2013		**20,628,834**	**$ 0.72**

The fair value of options granted are estimated using the Black-Scholes option pricing model. The assumptions in the table below are based on the weighted average of grants issued during the years ended December 31, 2013 and 2012:

Black Scholes assumptions - share options			
Input	**2013**	**2012**	**Basis of input**
Risk free interest rate	1.04%	1.17%	Bank of Canada's published bond yields
Expected volatility	105%	79%	The Company's historical volatility
Expected life, years	3	3	Contract terms
Expected forfeiture rate	10%	10%	Management's expectation
Expected dividend yield	0%	0%	Management's expectation

ii. Summary of share options outstanding and exercisable as at December 31, 2013 (dollars in CDN$)

	Outstanding			Exercisable		
Exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining years	Number outstanding	Weighted average exercise price	Weighted average remaining years
$0.20 to $0.50	11,603,834	$ 0.36	3.59	8,388,671	$ 0.35	3.54
$0.51 to $0.75	2,000,000	0.59	2.65	2,000,000	0.59	2.65
$0.76 to $1.00	2,225,000	0.97	2.26	2,225,000	0.97	2.26
$1.54	4,800,000	1.54	2.12	4,800,000	1.54	2.12
Totals	**20,628,834**	**$ 0.72**	**3.01**	**17,413,671**	**$ 0.79**	**2.88**

C. Warrant reserves

During 2013, all outstanding warrants classified as equity were exercised (Note 10.A), which reduced warrant reserves to a nil balance. Warrant reserves exclude the warrants described at Note 8. No new warrants were issued during 2013.

11. Income taxes

A. Current income taxes

The major components of income tax expense for the years ended December 31, 2013 and 2012 are:

Financial disclosures are presented in U.S. dollars unless otherwise noted

	December 31, 2013	December 31, 2012
Current tax expense	$ 50,000	$ 186,983
Deferred tax expense	-	-
Income tax expense	$ 50,000	$ 186,983

Taxation in the Company's operational jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

A reconciliation between tax expense and the accounting loss multiplied by the Company's domestic tax rate for the years ended December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
Expected tax benefit at statutory income tax rate of 0%	$ -	$ -
Tax rate differential	(182,238)	(97,097)
Permanent differences	62,373	185,922
Deferred tax asset not recognized	200,862	21,175
Other	(30,997)	76,983
Tax Expense	$ 50,000	$ 186,983

B. Unrecognized tax losses / unrecognized deductible temporary differences

As of December 31, 2013, the Company has estimated non-capital losses for foreign income tax purposes that may be carried forward to reduce taxable income derived in future years, totaling approximately $1,676,000, for which no deferred tax asset was recognized. The majority of the operating losses were incurred in the Philippines, $1,308,000, and begin expiring in 2014. The remaining operating losses of $368,000 incurred in the Netherlands begin expiring in 2020.

12. Earnings per share ("EPS")

A. Basic EPS

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

B. Diluted EPS

Diluted EPS is computed by dividing net loss for a year 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 years ended December 31, 2013 and 2012; 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.

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13. Capital management

The following table summarizes the accounts under the Company's capital management program as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	$ 6,293,357	$ 7,117,302
Restricted cash	250,100	250,000
Warrant liability	-	755,509
Share capital	106,693,756	92,399,045
Share option reserves	10,990,066	9,921,503
Warrant reserves	-	1,695,517

At December 31, 2013, approximately $15,000 (December 31, 2012 - $9,000) was held in banks in the Netherlands and $5.9 million (December 31, 2012 - $404,000) was held in banks in the Philippines denominated in the Philippine Peso. The Company had $250,000 held by a large United States of America ("USA") banking institution as collateral for the Company's credit cards. The balance of cash and cash equivalents at December 31, 2013 and 2012, was held in USA and Canadian banks.

The Company's objectives and continued financing of its commitments under its agreements with NADECOR (Note 4) 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 construction stage financing can be raised at the lowest possible cost.

14. Financial instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks. At December 31, 2013, the Company's financial instruments include cash and cash equivalents, advances to NADECOR, notes receivable and accounts payable and due to related party for which there are no differences in the carrying values and fair values, due to their short-term nature. The types of risk exposures are detailed below.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are measured using Level 1 inputs. The warrant liability was measured using Level 3 inputs.

The financial risk arising from the Company's operations are credit risk, liquidity risk, foreign exchange risk, and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Company generally does not engage in any other transactions in financial instruments, including derivative financial instruments for any other trade or speculative purposes.

A. Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company maintains the majority of its cash and cash equivalents in financial institutions located in the Philippines. Other current assets include tax refunds collectible and are considered to be low credit risk.

Financial disclosures are presented in U.S. dollars unless otherwise noted

B. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure.

Following is a summary of current obligations:

At December 31, 2013	Less than 1 year	1 to 3 years	Greater than 3 years	Total
Accounts payable	2,643,026	-	-	$ 2,643,026
Due to related parties	27,267	-	-	27,267
Totals	$ 2,670,293	-	-	$ 2,670,293

C. Foreign exchange risk

The Company is exposed to foreign exchange risk as some of its cash and cash equivalents are held in currencies other than the U.S. dollar. The Company also incurs expenses in currencies other than the U.S. dollar regularly, and such expenditures are expected to increase over time. These subject the Company to currency transaction risk. The Company's items exposed to foreign exchange risk include the following:

Foreign Currency Assets		At December 31, 2013			At December 31, 2012	
		Foreign Amount	USD Amount		Foreign Amount	USD Amount
Cash accounts						
Philippine pesos	₱	263,715,587	$ 5,938,875	₱	16,588,140	$ 404,419
Euros	€	3,055	4,209	€	7,022	9,259
Canadian dollars	C$	21,831	20,525	C$	-	-
GST receivable	₱	-	-	C$	23,420	23,540
Note receivable	C$	900,000	846,180	C$	900,000	914,040
Investment in NADECOR	₱	1,800,000,000	40,487,609		-	-
Total foreign currency assets			**$ 47,297,398**			**$ 1,351,258**

Foreign Currency Liabilities		At December 31, 2013			At December 31, 2012	
		Foreign Amount	USD Amount		Foreign Amount	USD Amount
Accounts payable & accrued liabilities						
Canadian dollars	C$	35,686	$ 33,552	C$	82,265	$ 82,686
Philippine pesos	₱	14,684,329	330,691	₱	3,755,297	91,554
Euros	€	36,646	48,334	€	63,009	83,081
Hong Kong dollars	HK$	125,509	16,191	HK$	117,915	15,213
Australian dollars	A$	810	723	A$	-	-
Total foreign currency liabilities			**$ 429,491**			**$ 272,534**

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

The Company conducts transactions in foreign currencies, and while exchange rates are anticipated to remain stable, certain activities and expenditures will be subject to market fluctuations. The Company will be establishing policies to monitor and minimize risk concerning currency issues between the United States, Canada and the Philippines as transactions increase. Gains and losses on transactions due to fluctuations in foreign currency rates are recorded as changes to the statements of loss.

Based on the above net exposures and assuming that all other variables remain constant, a 10% depreciation of the U.S. dollar against all of the above currencies would result in an increase foreign exchange effects in the period of approximately $176,000 (2012 – $24,000). This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

D. Commodity price risk

While the value of the Company's core mineral resource is related to the price of gold and copper, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect of its operational activities.

Gold and copper prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold.

Adverse movements in the prices of gold and copper may also negatively impact the Company's ability to raise capital and meets its financial commitments.

15. Commitments and contingencies

A. NADECOR

i. Commitments related to NADECOR

The Company's commitments to NADECOR are described at Notes 4, 5 and 6.

ii. NADECOR shareholder dispute

There is an internal dispute between two distinct shareholder groups of NADECOR which continues to exist as of the date these financial statements were authorised for issue. The dispute pertains to many issues including the validity of the 2011 annual stockholders' meeting of NADECOR where the NADECOR majority shareholder group nominees were appointed as the lawfully elected board of directors.

Several court actions were lodged by each side of the NADECOR shareholder groups during 2011 and 2012; on February 18, 2013, the Philippine Court of Appeals ruled that the board of directors elected during the August 15, 2011 meeting was validly elected; as a consequence, the directors nominated by the NADECOR majority shareholder group constituted majority of the lawful board of NADECOR. The NADECOR minority shareholder group has filed an appeal with the Philippines Supreme Court. The Company's view, based on external legal counsel advice, is the likelihood of the NADECOR minority shareholder group successfully appealing is remote.

However, in the unlikely event that the appeal to the Philippines Supreme Court in the Philippines is ultimately successful and the Court of Appeals ruling is reversed, the minority shareholder group could seek to challenge and rescind any or all contracts between the Company and NADECOR. Accordingly, as the Company would view such rescission to be without legal basis, the Company may be forced to go to arbitration to defend its agreements, which would result in protracted delays. The Company's management believes the agreements protecting the Company's investment in the project would be upheld in arbitration; however, it cannot provide absolute assurance as to the ultimate arbitration results.

B. Investments in joint ventures

i. KGCMI

The Company has subscribed to 40% of KGCMI. At this time, the Company has not yet received the share certificates as a result of the above referred NADECOR internal board dispute, as NADECOR is a 60% owner of KGCMI. The Company has received legal advice that their rights to the shares of KGCMI are protected by the share subscription agreement between the Company and KGCMI. A new entity has been incorporated to take the place of KGCMI's business purpose (Note 5.B).

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ii. KMC

KingKing Mining Corporation (Note 5.B), the entity to which NADECOR's shareholders have approved the transfer of the MPSA, was incorporated in October 2013.

C. Office lease agreement

The Company's office lease commitment to RMC (Note 9), ending March 2015, is approximately $13,000 per month. The total remaining payments through the end of the lease, all payable within three years from December 31, 2013, total approximately $190,000.

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 consolidated 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.

16. Subsidiaries

A. Listing of consolidated subsidiaries consolidated by the Company

Name	Country of Incorporation	Ownership Interest	Principal Activity
Strato International Holdings Ltd	British Virgin Islands	50%	Not active
MDC Mine Developers (Canada) Inc.	Canada	100%	Canadian employment
St. Augustine Mining, Ltd.	Cayman Islands	100%	Domestic operations
Asia Pacific Dutch BV	Netherlands	100%	Holding company
SAML-Dutch Cooperatief U.A.	Netherlands	100%	Holding company
Asia Pacific SAML Holdings	Philippines	100%	Holding company
MDC Operating Services Phils. Ltd.	Philippines	100%	Philippine employment (inactive)
San Augustin Services Inc.	Philippines	100%	Foreign operations
MDC America, Inc.	United States of America	100%	U.S. employment

During the year ended December 31, 2012, St. Augustine Mining Inc. ("SAMI") was dissolved for administrative efficiency of the Company's organizational structure with no impact to the consolidated financial statements as at December 31, 2013 or 2012.

B. Asset ownership by geographic location

As at December 31, 2013	**Philippines**	**United States**	**Total**
Investment in mining property	$ 48,045,958	$ -	$ 48,045,958
Property and equipment	370,399	173,127	543,526
Totals	$ 48,416,357	$ 173,127	$ 48,589,484

As at December 31, 2012	**Philippines**	**United States**	**Total**
Investment in mining property	$ 81,347,929	$ -	$ 81,347,929
Property and equipment	668,081	180,460	848,541
Totals	$ 82,016,010	$ 180,460	$ 82,196,470

The above table includes non-current assets other than financial instruments.

17. Subsequent events

On March 11, 2014, 2,780,000 stock options were granted to employees and directors of the Company. One third of the options vested on the grant date, one third will vest on March 11, 2015 and the final third will vest on March 11, 2016. The options are exercisable at CDN$0.20 and expire on March 11, 2019.

On March 10, 2014, a pool of 500,000 stock options was made available for grants to employees of the Company. Once granted, the options are expected to vest one third upon grant and one third per year for the following two years.