St. Augustine Gold and Copper Limited

Consolidated Financial Statements

Year ended December 31, 2011 and period from March 31, 2010 (inception) to December 31, 2010

Dated March 20, 2012

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. Since a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to March 20, 2012.

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 MNP LLP, Independent Registered Chartered Accountants. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The Independent Registered Chartered Accountants Report outlines the scope of their examination and sets forth their opinion.

The Audit Committee, consisting exclusively of independent directors, has reviewed these statements with management and the Independent Registered Chartered Accountants and has recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements of the Company. The audit committee also considers the independence of the external auditors and reviews their fees.

“SIGNED”	*“SIGNED”*
Andrew Russell	**Llee Chapman**
President and Chief Executive Officer	Chief Financial Officer

Spokane, Washington
March 20, 2012

To the shareholders of St. Augustine Gold & Copper Limited:

We have audited the accompanying consolidated financial statements of St. Augustine Gold & Copper Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010 and the consolidated statements of comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the year ended December 31, 2011 and period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 an audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 auditor considers 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 assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe 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 & Copper Limited and its subsidiaries as at December 31, 2011 and December 31, 2010 and their financial performance and their cash flows for the year ended December 31, 2011 and period ended December 31, 2010 in accordance with International Financial Reporting Standards a issued by the International Accounting Standards Board.

Emphasis of Matter – Going Concern
Without qualifying our opinion, we draw attention to Note 2 to these financial statements, which states that St. Augustine Gold & Copper Limited incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the ability of Augustine Gold & Copper Limited to continue as a going concern.

MNP LLP

Calgary, Alberta
March 20, 2012

Chartered Accountants

Table of Contents to the Consolidated Financial Statements

St. Augustine Gold and Copper Limited
Consolidated Statements of Financial Position
(Expressed in U.S. dollars)

	Notes	December 31, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		$ 24,656,885	$ 583,602
Restricted cash	5	943,697	-
Prepaids and other current assets		302,187	116,316
Receivable from related party	8	16,834	-
Total current assets		25,919,603	699,918
Non-current assets			
Investment in mining property	7	64,651,019	18,745,044
Advances receivable	5	-	7,028,295
Notes receivable	4	882,360	-
Investment in related party	8	-	125,737
Other non-current receivables		177,687	-
Property and equipment	6	866,423	-
Total non-current assets		66,577,489	25,899,076
Total assets		$ 92,497,092	$ 26,598,994
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		4,894,324	775,000
Warrant liability	11	316,267	-
Due to related parties	8	51,283	3,642,731
Loan payable	10	-	11,694,601
Total current liabilities		5,261,874	16,112,332
Non-current liabilities			
Long-term debt	14	-	8,467,389
Total liabilities		5,261,874	24,579,721
Shareholders' equity			
Share capital	12	86,077,399	2,069,664
Warrants	4	-	1,739,000
Share option reserves	12	6,701,148	-
Shares to be issued	4	3,425,408	-
Accumulated deficit		(8,968,737)	(1,789,391)
Total shareholders' equity		87,235,218	2,019,273
Total liabilities and shareholders' equity		**$ 92,497,092**	**$ 26,598,994**
Going concern	2		
Commitments and contingencies	14		
Subsequent events	18		

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

Approved on behalf of the Board of Directors:

"SIGNED"
Andrew Russell
Director

"SIGNED"
Terry Krepiakevich
Director

(Expressed in U.S. dollars except for per share data)

	Notes	Year ended December 31, 2011	Period from March 31, 2010 (inception) to December 31, 2010
Operating expenses			
Share-based payment expense	12	$ 6,701,148	$ -
Consulting fees - share and option based	8	-	1,939,000
Stock listing and transfer fees		321,259	-
General and administrative costs		1,147,854	2,553
Total operating expenses		8,170,261	1,941,553
Other income			
Interest income	7	946,255	152,162
Foreign exchange gain		44,660	-
Total other income		990,915	152,162
Total comprehensive loss		**$ 7,179,346**	**$ 1,789,391**
Net loss per common share, basic and diluted		$ 0.02	$ 0.18
Weighted average common shares outstanding, basic and diluted		294,511,462	10,000,001

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

(Expressed in U.S. dollars)

	Notes	Year ended December 31, 2011	Period from March 31, 2010 (inception) to December 31, 2010
Cash flows from operating activities			
Total comprehensive loss		$ (7,179,346)	$ (1,789,391)
Share-based payment expense	12	6,701,148	1,939,000
Depreciation expense	6	142,884	-
Non-cash interest earned	7	(915,977)	(152,162)
Effects of foreign currency translation		(44,660)	-
Changes in non-cash operating working capital			
Increase in prepaids and other current assets		(181,546)	(116,316)
Increase in other non-current assets		(177,687)	-
Increase in receivable from related party	8	(16,834)	-
Net cash used by operating activities		(1,672,018)	(118,869)
Cash flows from investment activities			
Increase in investment in mining property		(35,993,623)	(10,981,078)
Increase in related party advances		-	(2,794,601)
Increase in restricted cash		(943,697)	-
Purchase of property and equipment	6	(1,110,292)	-
Changes in non-cash investing working capital		3,958,188	913,885
Net cash used by investing activities		(34,089,424)	(12,861,794)
Cash flows from financing acitvities			
Net cash from reverse acquisition and recapitalization	4	7,210,251	-
Repayments to related parties	4	(2,000,000)	-
Proceeds attributed to common stock and warrants	12	64,869,854	1,869,664
Proceeds from loan payable		-	11,694,601
Settlement of debt	14	(10,250,000)	-
Net cash provided by financing activities		59,830,105	13,564,265
Effect of exchange rate changes on cash		4,620	-
Net increase in cash and cash equivalents		24,068,663	583,602
Cash and cash equivalents, beginning of period		583,602	-
Cash and cash equivalents, end of period		**$ 24,656,885**	**$ 583,602**
Comprised of:			
Cash		618,913	583,602
Cash equivalents		24,037,972	-
Total cash and cash equivalents, end of period		**$ 24,656,885**	**$ 583,602**

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
(Expressed in U.S. dollars)

	Notes	Shares	Share Capital	Warrants	Shares to be issued	Share option reserves	Accumulated deficit	Total
Balance, Inception (March 31, 2010)		1	$ 1	$ -	$ -	$ -	$ -	$ 1
Shares and warrants issued for contributed capital paid by shareholder		10,000,000	2,069,663	1,739,000	-	-	-	3,808,663
Total comprehensive loss for the period		-	-	-	-	-	(1,789,391)	(1,789,391)
Balance, December 31, 2010		10,000,001	$ 2,069,664	$ 1,739,000	$ -	$ -	$ (1,789,391)	$ 2,019,273
Ratel shares outstanding upon recapitalization	12(a)(ii)	90,000,000	-	-	-	-	-	-
Prior outstanding shares/warrants eliminated	4, 12(a)(i)	(10,000,001)	1,739,000	(1,739,000)	-	-	-	-
Shares issued on recapitalization	4	80,000,000	3,653,795	-	-	-	-	3,653,795
Shares to be issued	4	-	-	-	3,425,408	-	-	3,425,408
Additional capital contributed	12(iii)	-	1,462,593	-	-	-	-	1,462,593
Shares issued for notes receivable	12(a)(iv)	3,000,000	904,159	-	-	-	-	904,159
Options exercised concurrent with recapitalization	12(a)(v)	4,700,000	920,735	-	-	-	-	920,735
Private placement concurrent with recapitalization	12(a)(vi)	83,333,334	25,196,041	-	-	-	-	25,196,041
Private placement at $CDN 1.22	12(a)(vii)	32,800,000	38,918,800	-	-	-	-	38,918,800
Exercise of share options	12(a)(viii)	1,950,000	398,733	-	-	-	-	398,733
Share-based payments	12(c)	-	-	-	-	6,701,148	-	6,701,148
Private placement of units at $CDN 0.40	12(a)(ix)	29,475,000	10,813,879	-	-	-	-	10,813,879
Total comprehensive loss for the year		-	-	-	-	-	(7,179,346)	(7,179,346)
Balance, December 31, 2011		325,258,334	$ 86,077,399	$ -	$ 3,425,408	$ 6,701,148	$ (8,968,737)	$ 87,235,218

The accompanying notes are an integral part of these consolidated 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. SAGC is the successor to and sole owner of St. Augustine Mining, Inc. ("SAMI"), which was incorporated on March 31, 2010, under the laws of British Columbia, Canada. The Company also wholly owns St. Augustine Mining Ltd. ("SAML"), which is incorporated under the laws of the Cayman Islands, and MDC America, Inc., a company incorporated in the United States (Washington state). As part of a recapitalization (Note 4), Russell Mining and Minerals, Inc.'s ("RMMI") 50% ownership and control of Strato International Holdings, Ltd. ("Strato") was transferred to the consolidated group. A complete listing of subsidiaries can be found at Note 9. The address of SAGC's corporate office is 601 West Main Avenue, Suite 600, Spokane, WA 99201.

The Company has earned no revenues since its recapitalization 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 on April 27, 2010. Under these agreements and subsequent amendments and related agreements, the Company became responsible for providing technical assistance in respect of operations and acquired the right to earn-in an aggregate 60% equity position in the King-king Joint Venture ("KKJV") envisioned in the Memorandum of Understanding ("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. The Project is an advanced stage exploration property without a known commercially mineable ore body. Several years of exploration, including drilling and baseline studies were completed by Benguet Corporation ("Benguet"), the party which held an interest in the King-king Project with NADECOR prior to September 2011 (Note 14).

The recapitalization was considered a reverse acquisition within the meaning ascribed by International Financial Reporting Standards ("IFRS"); therefore, the comparative financial statements for prior periods reflect the consolidated operations and financial position of SAMI prior to the recapitalization.

SAGC and its consolidated subsidiaries' year-ends are December 31st.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 20, 2012.

2. GOING CONCERN

These consolidated annual financial statements ("Financial Statements") have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company has had no operating revenues and has incurred an accumulated loss of $8,968,737 through December 31, 2011.

The ability of the Company to continue as a going concern is dependent upon its ability to obtain additional financing. Such financing is needed to complete a Bankable Feasibility Study ("BFS"), develop the mine site, and fund operations. While the Company has been successful in raising funds from related parties and other private parties in the past, there can be no assurance that it will be able to do so in the future. As part of the recapitalization (Note 4) and additional subsequent share issuances during the year ended December 31, 2011, the Company raised approximately $72,000,000, net of the loan repayment to CGA Mining Limited ("CGA") (Note 10). The Company has spending plans in place for all cash on hand at December 31, 2011.

These Financial Statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

3. 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 for the reporting year ended December 31, 2011 and the period from March 31, 2010 (inception) to December 31, 2010.

(b) Basis of presentation

The consolidated 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 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) Segment reporting

The Company operates in a single reportable operating segment – the development of mineral properties. The Company’s primary mineral property interest, the King-king Project, is located in the Philippines.

(e) Significant accounting estimates and judgments

The preparation of these consolidated 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, revenue and expenses. Management uses historical experience and various 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 estimates relate to the following

1. *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. Management uses its judgment in selecting the specific value of each input.

2. *Fair value of derivative warrant liability*

   The initial recognition of the warrant liability was based on applicable inputs similar to those of share based payments. The updated values of relevant inputs are used to calculate the fair value at each reporting date.

3. *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.

4. *Fair values used in valuing recapitalizations*

Management estimated the fair value of the consideration transferred in the Recapitalization (Note 4) with Ratel based on a private placement closed shortly before the Recapitalization was completed.

5. *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 investment in mining property.

6. *Impairment assessment of investment in mining property*

Management determines at each reporting period whether there any indicators of impairment. If there are indicators, the carrying value of the investment in mining property is compared to the carrying value to calculate the amount of impairment. If no indicators of impairment are identified, no impairment test is performed.

7. *Depreciation and impairment of property and equipment*

Management estimates the useful life of property and equipment for depreciation purposes (Note 6). Indicators of impairment are subject to management's evaluation of the impact of various events.

The most significant judgments relate to recoverability of capitalized amounts, accounting for long-term investments, and the determination of the economic viability of a project.

From time to time, management may identify immaterial classification errors on the face of the statement of financial position for prior periods which do not change net assets. Where such changes are noted, management will present the corrected reclassified caption on the comparative statement of financial position.

(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

1. *Foreign currency transactions*

Transactions in foreign currencies are generally 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.

2. *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. The effect of foreign currency translation was immaterial during the year ended December 31, 2011 and is reflected in loss for the period. The Company anticipates that as foreign operations increase, this value will be more significant and will be reflected in other comprehensive income or loss during the year ended December 31, 2012.

(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 in hand, deposits held at 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. Any equipment with a life of two years or less is expensed upon acquisition. 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 since March 31, 2010 (inception) to December 31, 2011 has been depreciated on a straight-line basis over the useful life of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate components. 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. The gain or loss is recognized on the consolidated Statement of Comprehensive Loss.

(k) Investment in mining 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 mining property account. Amounts not allowed to earn-in, following NADECOR's audit, are either reported in the investment in mining 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.

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 impaired 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 sell. 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 17).

1. *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 and travel advances; 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.

2. *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 finance income or finance cost in the consolidated statement of comprehensive loss.

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

3. *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.

4. *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.

5. *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.

The Company's outstanding warrants were deemed to be derivative instruments and are reported as a financial liability through loss as at December 31, 2011 (Note 11).

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, due to related parties, loan payable and long-term debt 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 share purchase 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 with a corresponding increase in equity. The fair value of share-based payments is calculated using the Black-Scholes model and is recognized through the statements of comprehensive loss. Equity attributable to share-based compensation is reclassified as share capital equity upon exercise or expiration of options.

(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) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2012 or later periods. The standards impacted that are 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 in November 2009, 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, 2013, 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 was issued in May 2011, and 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 was issued in May 2011, and will supersede existing 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 was issued in May 2011, and is a new and 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 was issued in May 2011, and 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.

- In May 2011, the IASB published IAS 28 - Investments in Associates and Joint Ventures which 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 the Corporation 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 Corporation 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.

- In June 2011, the IASB issued IAS 1 - Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements. The amendments stipulate the presentation of net earnings and OCI and also require the Corporation to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for the Corporation beginning on January 1, 2012, with retrospective application and early adoption permitted.

- IAS 12 - Income Tax, Amendment regarding Deferred Tax: Recovery of Underlying Asset: The amendment requires an entity to recognize a deferred tax asset or liability depending on the expected manner of recovery or settlement of the asset or liability and for which the tax base is not immediately apparent. The Company will start the application of IAS 12 in the financial statements effective from January 1, 2012.

- IAS 27 – Consolidation and Separate Financial Statements is required to be adopted for periods beginning January 1, 2013.

- 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 from January 1, 2014.

(Financial information expressed in U.S. dollars unless otherwise noted)

Management is currently evaluating the impact of the changes relevant to IFRS 7, IFRS 9, IFRS 11, IFRS 12, and IAS 28; the remaining recent accounting pronouncements discussed above are not expected to have a material impact on the financial statements.

4. RECAPITALIZATION

On September 30, 2010, SAMI entered into a Letter of Intent agreement with Ratel Gold Limited ("Ratel"), a company traded on the Toronto Stock Exchange ("TSX") pursuant to which Ratel acquired all of the issued and outstanding shares of SAMI through a share exchange. Upon completion of the share exchange, RMMI, the parent of the Company's controlling shareholder, received $2,000,000 in repayment of advances made to the Company. Additionally, RMMI designated individuals to serve as directors such that RMMI controls the Board of Directors of the Company. The shareholders of Ratel approved the transaction in December 2010, and the effective date of the share exchange and the change of control was January 7, 2011. The original 10,000,001 in stock issued and outstanding in SAMI was converted into 80,000,000 shares of the recapitalized entity and an additional 75,000,000 shares are contingently owed to RMMI upon the completion of the Bankable Feasibility Study ("BFS") on the Project, or any subsequent change of control. These shares comprise the $3,425,408 balance of shares to be issued on the statement of financial position at December 31, 2011 (2010 – nil).

Upon completion of the acquisition of SAMI by Ratel in January 2011, Ratel changed its name to St. Augustine Gold & Copper Ltd. Ratel had disposed of all of its operating subsidiaries in anticipation of the completion of the merger with SAMI. SAMI was deemed the surviving operating company for accounting purposes.

The following table summarizes the net assets acquired from Ratel as part of the recapitalization:

Cash	$	7,210,251
Receivables		8,945
Payables		(126,814)
Foreign exchange loss		(13,179)
Net Assets Acquired	**$**	**7,079,203**

The value of the consideration transferred was calculated as the number of shares of the Company which SAMI would have to issue to maintain its percentage ownership in the post-combination entity, 5,807,375 shares. These shares were valued at $1.22 (CDN) per share, which is the price of the shares issued in the private placement closing in December 2010 to unrelated parties, resulting in total consideration transferred that approximated the net assets acquired.

Initially, goodwill on the transaction of $18,346,736 was recorded, as the difference between the fair value of the net assets received and the fair value of the equity consideration transferred. Purchase price allocation adjustments are permitted, but are limited to the measurement period, which is the earlier of the date on which all facts and circumstances that existed at the date of acquisition are known or are determined to not be obtainable, and one year from the date of acquisition. As allowed during the measurement period, the Company adjusted the purchase price allocation, and reversed the goodwill based on receipt of new information relating to the consideration transferred. The offsetting entry was to reduce the value of the equity instruments transferred.

At the time of the transaction, Ratel had 8,500,000 share options outstanding, which were voluntarily assumed and continued to be available for conversion under their original terms. Of these options, 4,700,000 were exercised concurrent with the recapitalization, resulting in proceeds of $920,735. The remaining 3,800,000 options continue with the recapitalized company with no changes to the terms or rights. As part of the restructuring and recapitalization, RMMI was required to cancel certain rights and obligations under various agreements (Note 14), which included the cancellation of 10,000,000 warrants in SAMI which had been previously valued at $1,739,000. The restructuring also included the transfer of RMMI's 50% ownership of Strato, which resulted in an additional amount of $126,341 in net equity in the recapitalized entity.

(Financial information expressed in U.S. dollars unless otherwise noted)

Concurrent with the January 7, 2011, transaction, 3,000,000 shares were issued to certain prior officers of Ratel with a total value of $904,159 in exchange for non-interest bearing notes of $900,000 (CDN). The value of these notes at December 31, 2011, was $882,360 (2010 – nil), representing 100% of the Company's notes receivable. The notes become collectible to the Company upon the sale of the holders' shares, or on December 23, 2015.

5. TRANSACTIONS WITH NADECOR

(a) Advances Receivable

Advances receivable are comprised of amounts owing from or paid on behalf of NADECOR as follows:

		December 31, 2011		December 31, 2010
NADECOR's share of Note payable (i)	$	-	$	4,233,694
Payments on behalf of NADECOR for Benguet debt (ii)		-		2,794,601
Totals	**$**	**-**	**$**	**7,028,295**

i. NADECOR shared in the liabilities to Benguet under the "Heads of Terms" agreement for the acquisition of the Benguet debts (Note 14(a)). This included its share of the payments remaining to be made under the agreement which was, at its discounted value, $4,233,694 as of December 31, 2010 against a face amount of $7,525,000.

ii. The Company advanced $2,794,601 to NADECOR to settle the debts acquired from Benguet's creditors using funds available from the CGA credit facility (Note 10). Monies advanced to NADECOR during 2010 for the repurchased Benguet debt were eliminated in the consolidation of Strato.

As discussed at Note 14(a), the debt payable to Benguet and the corresponding advances receivable were discharged during the year ended December 31, 2011.

(b) Restricted Cash

In May 2011, the Company advanced $Php 30,000,000 (approximately $700,000) to a bank account which is in NADECOR's name but is controlled by the Company to fund future operating expenses. The amount is controlled by the Company and earns a nominal amount of bank interest. It is presented on the statement of financial position at December 31, 2011, as restricted cash at the current translated value of $693,697. In addition to this deposit, the Company holds $250,000 in security deposits against the Company's credit card accounts, which together with the aforementioned NADECOR deposit, comprises the $943,697 balance of restricted cash at December 31, 2011 (2010 – nil). These security deposits earn a nominal amount of interest (.15% per annum). The security deposits are not related to NADECOR transactions.

(c) Other Agreements

On June 28, 2011, the Company executed the third amendment to the MOU which required the Company to advance NADECOR cash for expenditures of $981,000. This payment was made to NADECOR on August 3, 2011. This amount was capitalized as investment in mining property.

On June 28, 2011, the Company executed the Community Relations and Security Agreement with NADECOR. Under the agreement, NADECOR agreed to provide specific community relations services in the Philippines and to provide for security at the Project site for $200,000 per month. The term of the agreement is through the earlier of completion of the Company's Capital Expenditure ("CapEx") commitment pursuant to the MOU, the date of incorporation of the joint venture mining company, or termination through performance defaults. Through December 31, 2011, the Company had paid $1,800,000 against the agreement, which included payments made prior to the execution of the agreement made in good faith by the Company and $600,000 was due pursuant to the agreement at December 31, 2011(2010 – nil), and is included in accounts payable. Amounts paid pursuant to this agreement are capitalized to the Company's investment in mining property.

(Financial information expressed in U.S. dollars unless otherwise noted)

On June 28, 2011, the Company also executed the Joint Venture Coordinating Committee Agreement with NADECOR. The agreement acts to compensate NADECOR's Joint Venture Committee Members a total of $50,000 per month for their services in the planning and establishment of the joint venture contemplated in the MOU. The term of the agreement is the earlier of the completion of the Committee Charter objectives or the date on which the Company's CapEx expenditure commitment pursuant to the MOU is satisfied. Through December 31, 2011, $400,000 had been paid to NADECOR pursuant to the agreement, which included a one-time initial payment of $200,000. $150,000 was due pursuant to this agreement at December 31, 2011 (2010 – nil), which is included in accounts payable. Amounts paid pursuant to this agreement are capitalized to the Company's investment in mining property.

Note 7 discusses the Company's progress against the Company's CapEx commitment.

6. PROPERTY AND EQUIPMENT

		Vehicles	Equipment	Buildings	Total
Cost					
Balance, January 1, 2011	$	-	-	-	-
Acquisitions		637,383	351,291	121,618	1,110,292
Disposals		-	(106,108)	-	(106,108)
Balance, December 31, 2011	$	637,383	245,183	121,618	1,004,184
Accumulated depreciation					
Balance, January 1, 2011	$	-	-	-	-
Disposals		-	(5,123)	-	(5,123)
Depreciation expense		95,791	39,588	7,505	142,884
Balance, December 31, 2011	$	95,791	34,465	7,505	137,761
Net book value, December 31, 2011	$	541,592	210,718	114,113	866,423

There were no indicators of impairment requiring property and equipment impairment loss to be recognized during the year ended December 31, 2011.

7. INVESTMENT IN MINING PROPERTY

Under the terms of the MOU, the Company can earn up to an aggregate 60% interest in the Project by achieving milestones, expending funds for BFS and CapEx expenses and making direct payments to NADECOR. The expenditure requirements are summarized as follows:

(Financial information expressed 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 %	Cumulative Earn-in %
$	400,000	Exclusivity payment to NADECOR (i)	0.57%	0.57%
	3,100,000	Initial payment to NADECOR (ii)	4.43%	5.00%
	30,000,000	Initial BFS funding (iii)	30.00%	35.00%
	5,000,000	Incremental BFS funding (iv)	5.00%	40.00%
	8,500,000	Incremental BFS funding (iv)	10.00%	50.00%
	4,000,000	Payment to NADECOR (v)	1.00%	51.00%
	32,000,000	CapEx funding (vi)	9.00%	60.00%
$	83,000,000		60.00%	

i. Direct payment to NADECOR made in 2009.

ii. $3,000,000 was paid in 2010, pursuant to the First Amendment to the MOU. The remaining $100,000 is expected to be paid during 2012.

iii. Direct project expenditures made by the Company pursuant to the Preferred Shares Investment Agreement (“PSIA”).

iv. Direct project expenditures after the fulfillment of the $30,000,000 required to be expended under the PSIA, expected to be completed by 2012.

v. Direct payments to NADECOR, the timing 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 early 2013.

vi. This amount is due within 90 days of the Company and NADECOR’s formal joint commitment to fund development of the Project following completion of a BFS, which is expected to occur in 2012. The $32,000,000 commitment is a minimum amount and is subject to adjustment depending on the final planned throughput of the mine.

The Company has committed to spend $43,500,000 to complete a BFS for the Project, for which the Company earns an aggregate 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, 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 above 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.

As of December 31, 2011, the Company had expended an aggregate of $4,400,000 in direct payments to NADECOR and an aggregate of $60,000,000 in BFS and CapEx expenditures, such that the Company’s earn-in related expenditures totaled $64,400,000. As discussed at the reconciliation of investment in mining property below, a portion of aggregate expenditures remain subject to NADECOR’s audit.

Capital contributions into Strato which qualified for earn-in as of December 31, 2010, are included in Investment in mining property since the recapitalization (Note 4). No further capital contributions into Strato have been made as of December 31, 2011, nor are further contributions anticipated.

The Company reached $30,000,000 in earn-in expenditures during the quarter ended June 30, 2011, the maximum amount assured to the Company under the PSIA, under which the Company earned one preferred share of NADECOR (or the joint venture formed to hold the MPSA), for each dollar expended. Amounts beyond $30,000,000 will earn-in pursuant to the Interim Funding Agreement executed August 5, 2011, to the extent that such expenditures relate to expenditures contemplated in the MOU. During the same quarter, NADECOR confirmed the Company's investment of the $30,000,000 expended against the PSIA. Subsequent to December 31, 2011, the Company and NADECOR agreed to settle the earn-in attributable to this amount pursuant to a new agreement; details of this agreement are described at Note 18.

(Financial information expressed in U.S. dollars unless otherwise noted)

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:

Reconciliation of Investment in mining property to earn-in	December 31, 2011	December 31, 2010
Earn-in balance (i)	64,417,831	19,067,340
Depreciable property (earn-in in full on purchase)	(866,423)	-
Qualifying fundraising costs	(1,282,125)	-
Expenses pending qualification	-	219,673
Amortized portion of Benguet debt advanced to Nadecor	-	4,233,695
Disallowed/reserved expenses	2,381,736	1,249,054
Qualifying expenses incurred by Strato	-	(6,024,718)
Investment in mining property	**64,651,019**	**18,745,044**

i. Pursuant to MOU terms, all expenditures reported by the Company against earn-in are subject to audit, at NADECOR's discretion, to determine the final amount which qualifies against earn-in. NADECOR has elected to audit all expenditures through June 30, 2011. Approximately $28,800,000 of the amount at (i) in the above table at December 31, 2011 has been qualified against earn-in by NADECOR and approximately $35,700,000 is currently under audit or subject to audit. Also included in the investment in mining property is interest earned on advances made to NADECOR (2011 - $915,997; 2010 - $152,162). The portion of interest income for the year ended December 31, 2011 in excess of $915,997 is attributable to bank interest earned.

8. 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:

Compensation		Year ended December 31, 2011 (i)		Year ended December 31, 2010 (i)
Salaries, benefits and other	$	3,113,861	$	262,000
Share-based compensation		5,177,168		-
Total	$	8,291,029	$	262,000

(Financial information expressed in U.S. dollars unless otherwise noted)

i. Officers and directors were employed by RMMI on a consulting basis during the year ended December 31, 2010. The Company compensated RMMI pursuant to a Finder's Agreement (Note 8(c)), and RMMI ultimately incurred the expense of officers and directors.

(b) Transactions with Other Related Parties

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

	December 31,	
Related party receivable	2011	2010
Gold Coast Mining, Inc. (i)	$ 16,834	$ -

	Year ended December 31,	
Transactions	2011	2010
Services rendered:		
Macleod Dixon, LLP (i)	$ 197,846	$ 138,885
Reimbursement of third party expenses incurred on the Company's behalf:		
RMMI (ii)	227,967	3,501,553
Equity based compensation		
RMMI (ii)	-	1,939,000
Total	$ 425,813	$ 5,579,438

	December 31,	
Related party balances payable	2011	2010
Macleod Dixon, LLP	$ 16,346	$ 138,885
RMMI	34,937	3,503,846
Total	$ 51,283	$ 3,642,731

i. Gold Coast Mining, Inc. ("GCM") receives accounting and clerical support from the Company's staff. GCM has directors in common with the Company, and its corporate headquarters is in the same building as the Company's. Both reimburse RMMI for office rent and other general and administrative expenses.

ii. Macleod Dixon, LLP (now known as Norton Rose Canada LLP) acts as the Company's securities counsel and the partner of the account is also the Corporate Secretary.

iii. RMMI is the parent of the Company's largest shareholder, Pegasi Holding Ltd. ("Pegasi"), and is party to several of the Company's key agreements and has key managers common to the Company.

(c) Finder's Agreement

On March 31, 2010, SAMI signed an agreement with RMMI to assist with the acquisition of the Project. Terms of the agreement, which were cancelled as part of the recapitalization (Note 4), included:

- Issuance of 10,000,001 common shares to RMMI (Note 12(a)i);
- Grant to RMMI of five year warrants to purchase 10,000,000 shares at a price of $0.25 per share (Note 12(b));

(Financial information expressed in U.S. dollars unless otherwise noted)

- Payment to RMMI a fee of 4% of all funds raised for the Project, up to a total amount of $3,000,000 (no payments were made under these terms prior to cancellation as part of the recapitalization); and,
- In the event the Company failed to make required payments under agreements related to the Project (Note 7), RMMI had the option to complete the Company's obligations and receive, in exchange, shares of common stock of the Company at the rate of one share for every $0.25 spent by RMMI. No payments were made under this term.

The total value of the shares and warrants issued to RMMI by SAMI was $1,939,000. As noted above, all underlying equity instruments with that ascribed value were cancelled during the recapitalization described at Note 4. RMMI ultimately became the beneficial majority shareholder of the Company during the recapitalization.

(d) Shares Issued and Contingently Issuable to RMMI Pursuant to Recapitalization

RMMI acquired 80,000,000 common shares of the Company during the recapitalization, details of which are described at Note 4. In addition, as part of the recapitalization, there are 75,000,000 shares contingently issuable to RMMI upon completion of a bankable feasibility study or a change in control.

(e) Investment in related party

Strato was incorporated by RMMI and NADECOR under an agreement that both companies were to contribute 50% of the capital needed, and contributions provided by RMMI or its designee would qualify for SAML's earn-in. As of December 31, 2010, RMMI had expended in Strato $125,737. That amount was reported as investment in related party, prior to the Recapitalization (Note 4), at which time Strato was not consolidated. The amount was eliminated in consolidation at December 31, 2011.

9. SUBSIDIARIES

The Company's subsidiaries at December 31, 2011 are as follows:

Name	Country of Incorporation	Ownership Interest	Principal Activity
St. Augustine Mining, Inc.	Canada	100%	Holding company
St. Augustine Mining, Ltd.	Cayman Islands	100%	Domestic operations
MDC America, Inc.	United States of America	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
San Augustin Services Inc.	Philippines	100%	Foreign operations
MDC Operating Services Phils. Ltd.	Philippines	100%	Foreign operations
Strato International Hldings Ltd	British Virgin Islands	50%	Not active

10. LOAN PAYABLE

On October 18, 2010, the Company and NADCECOR entered into a facility agreement with CGA which would provide financing of up to $14,900,000 to SAML and Strato for commitments to settle with Benguet and fund operations. This loan bore interest at 12%. The credit facility is no longer available to the Company.

Amounts drawn on the facility were as follows:

Amounts drawn on CGA credit facility		
Advances to NADECOR for its 50% contribution to Strato's settlement with Benguet's creditors	$	2,794,601
Payment to Benguet (Note 12)		6,000,000
Operational expenses		2,900,000
Balance, December 31, 2010		11,694,601
Repayment of loan from capital raised during recapitalization (Note 4)		(11,694,601)
Balance, December 31, 2011	**$**	**-**

At December 31, 2010, accrued interest on the loan payable was $237,209. All of the debt and interest was satisfied as part of the January 2011 funding under the recapitalization (Note 4); the total paid on the CGA debt was $14,825,908, comprised of principal of $11,694,601 due from the Company, principal of $2,794,601 paid on behalf of Strato, and accrued interest for both SAML and Strato of $336,706.

11. WARRANT LIABILITY

The private placement discussed at Note 12(a)(ix) resulted in the issuance of 14,737,500 whole warrants with a $0.75 (CDN) strike price, which were valued in aggregate at $316,267, using the Black-Scholes pricing model with the following assumptions:

Black Scholes assumptions - warrants	
Risk free interest rate (i)	0.92%
Expected volatility (ii)	75%
Expected life (years) (iii)	0.75
Expected dividend yield (iv)	0%

i. Based on one year Bank of Canada bond yield.

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

iii. Based on contract terms.

iv. Based on management's expectations over the next year.

The warrants are considered a derivative liability under IAS 32 because they are exercisable in Canadian dollars and the Company's functional currency is the U.S. dollar. The warrants are therefore required to be revalued at fair value through net loss at each reporting date. At December 31, 2011, the value of the warrant liability was the same as the initially recorded value of $316,267, as the change in the fair value of the warrants was not material.

The warrants remained outstanding and exercisable at December 31, 2011.

12. EQUITY

(a) Authorized Share Capital

At December 31, 2011, the authorized share capital was comprised of an unlimited number of common shares without par value.

Common share activity is summarized in the table below.

(Financial information expressed in U.S. dollars unless otherwise noted)

	Shares		Share Capital
Balance, December 31, 2010	**10,000,001**	**$**	**2,069,664**
Ratel's shares acquired (ii)	90,000,000		-
SAMI's shares eliminated on recapitalization (i)	(10,000,001)		-
Cancellation of warrants from SAMI (Note 4)	-		1,739,000
Shares issued on recapitalization (Note 4)	80,000,000		3,653,795
Additional capital contributed (iii)	-		1,462,593
Shares issued to ex-officers for notes receivable (iv)	3,000,000		904,159
Options exercised concurrent with recapitalization (v)	4,700,000		920,735
Private placement concurrent with recapitalization (vi)	83,333,334		25,196,041
Additional private placement at $1.22 (CDN) net of share issue costs of $1,282,125 (vii)	32,800,000		38,918,800
Exercise of share options (viii)	1,950,000		398,733
Private placement of Units at $0.40 (CDN), net of share issue costs of $388,500 (ix)	29,475,000		10,813,879
Balance, December 31, 2011	**325,258,334**	**$**	**86,077,399**

All references to the recapitalization at i through ix directly below refer to the recapitalization discussed at Note 4.

i. Original Shares

The shares of SAMI are held in RMMI’s subsidiary Pegasi. The shares held by Pegasi were exchanged with Ratel on January 7, 2011 (Note 4).

ii. Shares issued upon recapitalization

On January 7, 2011, as part of the recapitalization, 90,000,000 shares outstanding in Ratel were assumed by the combined entity for accounting purposes.

iii. Additional capital contributed

RMMI contributed an additional $1,336,252 in capital contributions to SAMI and SAML and contributed its capital account in Strato in the amount of $126,341.

iv. Shares issued to ex-officers

Concurrent with the recapitalization, 3,000,000 shares were issued to certain prior officers with a value of $904,159 in exchange for non-interest bearing notes for $900,000 (CDN). The value of the related notes at December 31, 2011 was $882,360.

v. Options exercised concurrent with the reverse acquisition

On January 7, 2011, 4,700,000 share options were exercised concurrently with the recapitalization for proceeds of $920,735.

vi. Private placement concurrent with the recapitalization

In conjunction with the recapitalization, the Company completed a private placement financing of 83,333,334 common shares at $0.30 (CDN) per share, resulting in proceeds of $25,196,041. There were no share issuance costs. Of the $25,196,041 in proceeds, $11,694,601 was used to settle the CGA loan (Note 10) and the remainder was received in cash.

vii. Additional private placement

In December 2010, the Company announced another private placement of 32,800,000 common shares at a $1.22 (CDN). These funds were released upon the completion of the recapitalization. There were

(Financial information expressed in U.S. dollars unless otherwise noted)

$1,282,125 of share issue costs and commissions associated with the issuance, resulting in proceeds of $38,918,800.

viii. Stock issued for other options being exercised

During the year ended December 31, 2011, 1,950,000 share options with an exercise price of $0.20 (CDN) which originated prior to the recapitalization were exercised, providing $398,733 in cash.

ix. Private placement of units ("Units")

The Company closed a private placement of 29,475,000 Units in December 2011. Each Unit was comprised of one common share and half of one common share purchase warrant. Each of the 14,737,500 whole warrants (Note 11) entitles the holder to acquire one common share at a strike price of $0.75 (CDN) for a one year term. The Units were sold at $0.40 (CDN) for proceeds of $11,130,146, net of expenses of $388,500. Proceeds of $10,813,879 were allocated to shares and proceeds of $316,267 were allocated to warrants.

(b) Warrants

In 2010, the Company issued 10,000,000 warrants to RMMI allowing RMMI to purchase one share of common stock for each warrant held (Note 8(c)) at an exercise price of $0.25 and a term of five years. The fair value of the warrants was determined using the Black-Scholes valuation method to be $1,739,000, which has been recorded as consulting expense. At the time of issuance, the market value was deemed to be approximately $0.21 per share.

The fair value of warrants granted was estimated using the Black-Scholes pricing model with the following assumptions:

Black Scholes assumptions - warrants	
Risk free interest rate (i)	5%
Expected volatility (ii)	124%
Expected life (years) (iii)	5
Expected dividend yield (iv)	0%

i. Based on five year Bank of Canada bond yield.

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

iii. Based on contract terms.

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

All warrants were unexercised when cancelled as part of the recapitalization on January 7, 2011 (Note 4).

(c) 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 outside 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 employees' contract terms may change the standard terms under the plan at the discretion of the Board of Directors.

(Financial information expressed in U.S. dollars unless otherwise noted)

The issued and outstanding options as of December 31, 2011, were as follows:

	Number of options		Weighted average exercise price (CDN)		Share option reserves
Balance at January 1, 2011	-		-		-
Share options acquired from Ratel (Note 4)	3,800,000	$	0.20	$	-
Exercise of options	(1,950,000)		0.20		-
Share options granted to officers, directors and employees	19,575,000		1.33		7,514,904
Share options forfeited by officers, directors, and employees	(4,466,667)		1.51		(813,756)
Balance at December 31, 2011	16,958,333	$	1.16	$	6,701,148
Options exercisable at December 31, 2011	7,025,000	$	0.99	$	2,790,134

In January 2011, subsequent to the recapitalization described at Note 4, the Company issued 11,175,000 incentive share options to directors, officers, employees and consultants. These options will vest over the next two years with one-third of the options vested upon issuance and the other two-thirds at each of the next two years anniversary dates. The options have an exercise price of $1.54 (CDN) and a five year term. During the balance of 2011, the Company issued an additional 8,400,000 share options under similar terms. The total expense recognized for the year ended December 31, 2011 was $6,701,148 (2010 – nil) for the portion of the awards which vested during the period or provided a compensation benefit and nil for the year 2010.

The fair value of options granted during the year ended December 31, 2011 was estimated using the Black-Scholes option pricing model with the following weighted assumptions:

Black Scholes assumptions	
Risk free interest rate (i)	1.63%
Expected volatility (ii)	86%
Expected life, years (iii)	3
Expected forfeiture rate (iv)	6%
Expected dividend yield (v)	0%

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

ii. Based on the volatility of 10 peer companies with similar equity structures.

iii. Based on contract terms.

iv. Management's estimate based on past forfeitures.

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

The following share options were outstanding and exercisable as of December 31, 2011:

(Financial information expressed in U.S. dollars unless otherwise noted)

Exercise Price (CDN)	Number Outstanding	Weighted Average Life (Years)	Number Exercisable	Weighted Average Exercise Price (CDN)
$ 1.54	10,158,333	4.12	3,441,666	$ 1.54
0.98	2,100,000	4.26	700,000	0.98
0.80	125,000	4.31	41,667	0.80
0.73	200,000	4.43	66,667	0.73
0.68	200,000	4.45	66,667	0.68
0.66	200,000	4.52	66,667	0.66
0.64	500,000	4.50	250,000	0.64
0.53	1,100,000	4.78	366,667	0.53
0.29	525,000	4.95	175,000	0.29
0.20	1,850,000	0.50	1,850,000	0.20
	16,958,333	**3.83**	**7,025,000**	$ **0.99**

13. INCOME TAXES

(a) Federal Corporate Income Taxes

	December 31, 2011	2010
Current tax expense	-	-
Deferred tax expense	-	-
	-	-

Taxation in the Group's operational jurisdictions is calculated at the rates prevailing in the respective jurisdictions. There is no tax charge arising for the Group for the year, either in the British Virgin Islands, Canada, the US and the Philippines.

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	December 31, 2011	2010
Loss before tax per the accounts	(7,179,346)	(1,789,391)
Income taxed at local statutory rates- 31.74% (2010- 28.50%)	(2,278,724)	(509,976)
Income not subject to tax	2,266,187	-
Effect of reduction in statutory rate	-	(3,037)
Non-deductible expense	15,998	495,615
Losses not recognized	-	17,398
Change in unrecognized deferred tax assets	(3,461)	-
Income tax recovery on loss	**-**	**-**

Effective January 1, 2011, the Canadian Federal corporate tax rate decreased from 18.00% to 16.50% and the British Columbia provincial tax rate decreased from 10.50% to 10.00%.

The tax rate of 0.00% represents the federal statutory rate applicable for the 2011 taxation year for the British Virgin Islands, 30.00% for the Philippines, and 34.00% for the US.

(Financial information expressed in U.S. dollars unless otherwise noted)

(b) Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at 31 December 2011 and 2010 are summarized as follows:

	December 31, 2011	2010
Non-capital losses	19,766	17,398
Capital assets	1,093	-
Unrecognized deferred tax asset	(20,859)	(17,398)
	-	-

As at December 31, 2011, the Company has estimated non-capital losses for Canadian and foreign income tax purposes that may be carried forward to reduce taxable income derived in future years, as summarized below:

Non-capital Canadian tax losses expiring as follows:

Year of Expiry	Taxable Losses
2031	18,509

14. COMMITMENTS AND CONTINGENCIES

(a) Long-term debt – Benguet

The Company and NADECOR negotiated with Benguet to have Benguet relinquish all of its rights to the King-king project through the Heads of Terms agreement. In exchange for Benguet surrendering its rights to the Project, the Company and NADECOR were to share equally in the following payments to Benguet:

Summary of Benguet Debt

Due date		Amount Due to Benguet
October 17, 2010	$	8,000,000
October 17, 2012		5,000,000
October 17, 2015		4,000,000
October 17, 2016		4,000,000
October 17, 2017		4,000,000
Total payments due	**$**	25,000,000

During 2010, Strato acquired certain outstanding debt due from Benguet to unrelated third parties in order to negotiate the Company's acquisition of Benguet's interest in the Project. The debts acquired by Strato were sold to Benguet at a discounted value of $3,950,000. Upon execution of the Heads of Terms, the Company was effectively a creditor of Benguet in the amount of $3,950,000 and debtor in the undiscounted amount of $25,000,000. Because the Company was a net debtor to Strato, the Heads of Terms prearranged settlement of the amount Benguet owed the Company by way of two credit notes of $2,000,000 and $1,950,000 to be applied against the amount the Company owed Benguet.

In conjunction with the CGA funding discussed in Note 10 and under the terms of the Heads of Terms, the Company issued the $2,000,000 credit note to Benguet and also made a cash payment of $6,000,000 to settle the first $8,000,000 payment due to Benguet on October 17, 2010. The second credit note of $1,950,000 was applied against the full settlement described below.

(Financial information expressed in U.S. dollars unless otherwise noted)

The Company fully settled the payments due to Benguet in September 2011, pursuant to the terms of the First Amendment to the Heads of Terms agreement executed between the Company and Benguet. The agreement settled the full amount due to Benguet with a payment of $10,250,000 and issuance of the $1,950,000 credit note to Benguet. This settlement qualified as an earn-in expenditure for the Company pursuant to the Fourth Amendment to the MOU executed between the Company and NADECOR.

Summary of Benguet Debt Settlement

Date	Cash Paid to Benguet	Credit Notes Issued to Benguet
October 17, 2010	6,000,000	2,000,000
September 12, 2011	10,250,000	1,950,000
Total payments made	16,250,000	3,950,000

Because the amounts payable to Benguet had no stated rate of interest, prior to settlement in September 2011, the Company reported the debt at its discounted value, using a 12% discount rate, which was the rate of funds available to the Company based on historical experience. The amortized value of the note at the settlement date was $9,218,814 (December 31, 2010 - $8,467,389). The settlement payments above reduced the note payable to zero, and the difference between the amortized value of the note and the settlement payments was charged to the Company's investment in mining property. The value of the credit notes had been charged to the investment in mining property through Strato's activity at December 31, 2010.

(b) NADECOR

The Company's commitments to NADECOR are described at Notes 5 and 7.

(c) Rental agreement

The Company currently operates under a month-to-month rental agreement for office space shared with RMMI. Amounts paid to and due to RMMI are described at Note 8. Subsequent to December 31, 2011, the Company entered into a new lease agreement (Note 18).

(d) Shares contingently issuable to RMMI

Pursuant to the recapitalization (Note 4), 75,000,000 shares are issuable to RMMI contingent upon completion of a bankable feasibility study on the Project or a change in control.

(e) Guarantees

Corporate indemnities have been provided by the Company to all directors and certain officers for various items including costs to settle suits or actions due to their association with the Company. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. Each indemnity, subject to certain exceptions, applies for so long as the indemnified person is a director or officer of the Company.

The Company may provide indemnifications in the normal course of business that are often standard contractual terms to counterparties in certain transactions such as purchase and sale agreements. The terms of these indemnifications will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amounts that may be required to be paid.

(Financial information expressed in U.S. dollars unless otherwise noted)

(f) 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 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 lease agreement described at Note 18.

15. CAPITAL MANAGEMENT

The following table summarizes the assets under the Company's capital management program as of December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Cash and cash equivalents	$ 24,656,885	$ 583,602
Restricted cash	943,697	-
Long-term debt	-	8,467,389
Warrant liability	316,267	-
Share capital	86,077,399	2,069,664
Warrants	-	1,739,000
Share option reserves	6,701,148	-
Shares to be issued	3,425,408	-

Prior to the recapitalization described in Note 4, the Company was dependent on the contribution of capital and other interim funding from related parties. 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 (Note 2).

No funding since inception has been raised through debt issuances (the debt in the above table was issued to acquire rights to the Project). 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.

16. 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 includes the effects of instruments, such share options, which could cause the number of common shares outstanding to increase.

The Company reported net losses for the years ended December 31, 2011 and 2010; 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.

17. FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. At December 31, 2011, the Company's financial instruments include cash and cash equivalents, travel advances and accounts receivable, notes receivable, related party receivables, as well as 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 change in the fair value of the warrant liability was not material from the date of the initial recording in 2011 to December 31, 2011 (Note 11). 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 is measured using Level 2 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 United States of America and which are insured by the Federal Deposit Insurance Corporation up to certain limits. Other current assets include tax refunds collectible from the Canadian government and are considered to be low credit risk.

(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.

(Financial information expressed in U.S. dollars unless otherwise noted)

Following is a summary of current obligations:

At December 31, 2011	Less than 1 year	1 to 3 years	Greater than 3 years	Total
Accounts payable	$ 4,894,324	$ -	$ -	$ 4,894,324
Due to related parties	51,283	-	-	51,283
Totals	**$ 4,945,607**	**$ -**	**$ -**	**$ 4,945,607**

(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, 2011			At December 31, 2010		
		Foreign Amount		USD Amount	Foreign Amount		USD Amount
Cash accounts							
Philippine pesos	₱	48,252,562		1,042,255	-		-
Euro	€	19,000		27,575	-		-
GST receivable	C$	2,341		2,327	-		-
VAT receivable	₱	8,326,754		179,858			
Total foreign currency assets			$	1,252,015		$	-

Foreign Currency Liabilities		At December 31, 2011			At December 31, 2010			
		Foreign Amount		USD Amount		Foreign Amount		USD Amount
Accounts payable								
Canadian dollars	C$	41,796	$	40,960	C$	31,500		31,292
Philippine pesos	₱	23,737,079		522,887		-		-
Euros	€	21,015		28,073		-		-
Australian dollars	A$	71,560		72,590		-		-
Total foreign currency liabilities			$	664,511			$	31,292

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. Currently the Company treats all currency exchange transactions as measurement gains and losses upon the exchange and no accounting records are maintained in other than the functional currencies of the subsidiaries of the Company.

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 in net loss in the period of approximately $23,000 (2010 – $3,100). 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.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2011, the Company and NADECOR executed an agreement (the "Subscription Agreement") made effective January 19, 2012, which will result in the issuance of joint venture equity to the Company. The Subscription Agreement will cause the Company to own 30% of the issued and outstanding equity of King-king Gold & Copper Mines, Inc., the joint venture which will hold the Mineral Production Sharing Agreement relevant to the King-king Project. The agreement settles the $30 million dollar PSIA investment commitment discussed elsewhere.

In January 2012, the Company executed a lease agreement for its corporate headquarters office space. The commitment is for a three year term with monthly payments of $16,000.

Subsequent to year end and through the date of this document, the Company issued 3,600,000 stock options with a $0.28 (CDN) exercise price and 1,000,000 stock options with a $1.54 (CDN) exercise price to employees through the date of this report.