St. Augustine Gold and Copper Limited

Consolidated Financial Statements

Years ended December 31, 2012 and 2011
Presented in U.S. dollars

Dated as of March 22, 2013

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 22, 2013. 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"
Robert Orr
Chief Financial Officer

Spokane, Washington

March 22, 2013

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 statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive loss, cash flows and changes in shareholders' equity for the year 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 audit. We conducted our audit 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 audit 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of **St. Augustine Gold and Copper Limited** for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 20, 2012. The predecessor auditor included an emphasis of matter paragraph outlining the existence of a material uncertainty which may cast significant doubt about the ability of **St. Augustine Gold and Copper Limited** to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada,
March 22, 2013.

Chartered Accountants

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(Presented in U.S. dollars)

	Notes	December 31, 2012	2011
Assets			
Current assets			
Cash and cash equivalents		$ 7,117,302	$ 24,656,885
Restricted cash	4(a)	250,000	943,697
Advances to NADECOR	4(a)	1,137,512	-
Prepaids and other current assets		248,879	319,021
Total current assets		8,753,693	25,919,603
Non-current assets			
Investment in mining property	5	81,347,929	64,651,019
Notes receivable	3	914,040	882,360
Property and equipment	6	848,541	866,423
Other non-current assets		500,000	177,687
Total non-current assets		83,610,510	66,577,489
Total assets		**$ 92,364,203**	**$ 92,497,092**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued wages		$ 1,846,503	$ 4,894,324
Warrant liability	7	755,509	316,267
Due to related parties	8(b)	20,167	51,283
Total current liabilities		2,622,179	5,261,874
Shareholders' equity			
Share capital	9(a)	92,399,045	86,077,399
Share option reserves	9(b)	9,921,503	6,701,148
Warrant reserves	9(c)	1,695,517	-
Shares to be issued	9(a)	-	3,425,408
Accumulated deficit		(14,321,960)	(8,968,737)
Accumulated other comprehensive income		47,919	-
Total shareholders' equity		89,742,024	87,235,218
Total liabilities and shareholders' equity		**$ 92,364,203**	**$ 92,497,092**

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

Approved on behalf of the Board of Directors:

"SIGNED" *"SIGNED"*

Terry Krepiakevich
Director

Max V. Anhoury III
Director

(Presented in U.S. dollars)

	Notes	Year ended December 31, 2012	2011
Operating expenses			
Wages and share-based payments	9(b)	$ 2,703,008	$ 6,701,148
Stock listing and transfer fees		149,527	321,259
General and administrative costs		1,943,345	1,147,854
Total operating expenses		4,795,880	8,170,261
Other income and expense			
Interest income		19,636	946,255
Change in fair value of warrant liability	7	(439,242)	-
Foreign exchange gain		49,246	44,660
Total other income (expense)		(370,360)	990,915
Net loss before income tax expense		**5,166,240**	**7,179,346**
Income tax expense	10	186,983	-
Net loss		**$ 5,353,223**	**$ 7,179,346**
Foreign exchange translation gain		(47,919)	-
Total comprehensive loss		**$ 5,305,304**	**$ 7,179,346**
Net loss per common share, basic and diluted		$ 0.02	$ 0.02
Weighted average common shares outstanding, basic and diluted		346,491,211	294,511,462

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

(Presented in U.S. dollars)

	Notes	Year ended December 31, 2012	2011
Cash flows from operating activities			
Net loss		$ (5,353,223)	$ (7,179,346)
Share-based compensation expense	9(b)	1,386,794	6,701,148
Non-cash fair value adjustment of warrant liability	7	439,242	-
Effects of foreign currency		11,741	(44,660)
Deduct interest income (reporting under investing activities)		(19,636)	(28,997)
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		70,142	(181,546)
Increase in other non-current assets		(322,313)	(194,521)
Income tax payments		(63,017)	-
Net cash used by operating activities		(3,850,270)	(927,922)
Cash flows from investment activities			
Increase in investment in mining property		(14,604,197)	(36,766,716)
Decrease (increase) in restricted cash		693,697	(943,697)
Increase in advances to NADECOR		(1,137,512)	-
Purchase of property and equipment	6	(241,270)	(1,110,292)
Changes in non-cash investing working capital		(3,015,920)	3,958,188
Interest income		19,636	28,997
Net cash used by investing activities		(18,285,566)	(34,833,520)
Cash flows from financing acitvities			
Net cash from reverse acquisition and recapitalization	3	-	7,210,251
Repayments to related parties	3	-	(2,000,000)
Proceeds attributed to common stock and warrants	9(a)	4,591,755	64,869,854
Settlement of debt		-	(10,250,000)
Net cash provided by financing activities		4,591,755	59,830,105
Net increase (decrease) in cash and cash equivalents		(17,544,081)	24,068,663
Effect of exchange rate changes on cash		4,498	4,620
Cash and cash equivalents, beginning of year		24,656,885	583,602
Cash and cash equivalents, end of year		**$ 7,117,302**	**$ 24,656,885**
Comprised of:			
Cash		$ 5,658,050	$ 618,913
Cash equivalents		1,459,252	24,037,972
Total cash and cash equivalents, end of year		**$ 7,117,302**	**$ 24,656,885**

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

(Presented in U.S. dollars)

	Notes	Shares	Share capital	Share option reserves	Warrant reserves	Shares to be issued	Accumulated deficit	Accumulated other comprehensive income	Total
Balance, January 1, 2011		10,000,001	$ 2,069,664	$ -	$ 1,739,000	$ -	$ (1,789,391)	$ -	$ 2,019,273
Ratel shares outstanding upon recapitalization	3	90,000,000	-	-	-	-	-	-	-
Prior outstanding shares/warrants eliminated	3	(10,000,001)	1,739,000	-	(1,739,000)	-	-	-	-
Shares issued on recapitalization	3	80,000,000	3,653,795	-	-	-	-	-	3,653,795
Shares to be issued	10(a)	-	-	-	-	3,425,408	-	-	3,425,408
Additional capital contributed	9(a)	-	1,462,593	-	-	-	-	-	1,462,593
Shares issued for notes receivable	3	3,000,000	904,159	-	-	-	-	-	904,159
Options exercised concurrent with recapitalization	3	4,700,000	920,735	-	-	-	-	-	920,735
Private placement concurrent with recapitalization	9(a)	83,333,334	25,196,041	-	-	-	-	-	25,196,041
Private placement at $CDN 1.22, net	9(a)	32,800,000	38,918,800	-	-	-	-	-	38,918,800
Exercise of share options	9(a)	1,950,000	398,733	-	-	-	-	-	398,733
Share-based payments	9(b)	-	-	6,701,148	-	-	-	-	6,701,148
Private placement of units at $CDN 0.40	9(a)	29,475,000	10,813,879	-	-	-	-	-	10,813,879
Net loss for the year		-	-	-	-	-	(7,179,346)	-	(7,179,346)
Balance, December 31, 2011		325,258,334	86,077,399	$ 6,701,148	$ -	$ 3,425,408	$ (8,968,737)	$ -	$ 87,235,218
Release of shares to be issued	9(a)	75,000,000	3,425,408	-	-	(3,425,408)	-	-	-
Private placement of units at US$0.19, net	9(a)	25,000,000	2,896,238	-	1,695,517	-	-	-	4,591,755
Share based compensation	9(b)	-	-	3,220,355	-	-	-	-	3,220,355
Foreign exchange translation gain for the year		-	-	-	-	-	-	47,919	47,919
Net loss for the year		-	-	-	-	-	(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

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. The Company's name was changed following a recapitalization completed during 2011 (Note 3). The address of SAGC's corporate office is 601 West Main Avenue, Suite 600, Spokane, Washington 99201. The registered address of the Company in the British Virgin Islands is Jayla Place, Wickham's Cay 1, Road Town, Tortola VG 1110, British Virgin Islands.

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

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

These consolidated financial statements ("financial statements") were authorized for issue by the Board of Directors on March 20, 2013.

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, 2012.

(b) Basis of presentation

The financial statements have been prepared using historical costs and fair values of certain items. Items measured at fair value include cash held in foreign currencies, warrant valuations 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, 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 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 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.

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 Company's recapitalization in 2011 based on a private placement that 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 are 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. 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 mining 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 mining 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.

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.

(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.

(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. 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 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 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 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 13).

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.

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:

i. significant financial difficulty of the issuer or counterparty;

ii. default or delinquency in interest or principal payments;

iii. it has become probable that the borrower will enter bankruptcy or financial reorganization; or,

iv. 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:

i. the contractual right to the asset's cash flows expire; or,

ii. 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.

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, 2012 and 2011 (Note 7).

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 mining 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. *International Accounting Standard 17 – Leases in the financial statements of lessees* specifically identifies the following factors which would classify a lease as a finance lease:

i. The lease transfers the lease transfers ownership of the asset to the lessee by the end of the lease term;

ii. 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;

iii. the lease term is for the major part of the economic life of the asset even if title is not transferred;

iv. 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

v. 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 three conditions are met:

i. an entity has a present obligation (legal or constructive) as a result of a past event;

ii. it is probable (ie more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and

iii. 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) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Issues Committee that are mandatory for accounting periods beginning after January 1, 2013 or later periods. Those applicable to the Company are as follows:

1. *IFRS 7 – Financial Instruments Disclosures* 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.

2. *IFRS 9 - Financial Instruments* was issued as the first step in its project to replace *IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9* introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand *IFRS 9* during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.

3. *IFRS 10 - Consolidated Financial Statements* will supersede the consolidation requirements in *SIC-12 - Consolidation – Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements* effective for annual periods beginning on or after January 1, 2013, with early application permitted. *IFRS 10* builds on existing principles by identifying the concept of

control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.

4. *IFRS 11 - Joint Arrangements* will supersede 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 (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.
5. *IFRS 12 - Disclosure of Interests in Other Entities* is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. *IFRS 12* is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
6. *IFRS 13 - Fair Value Measurement* sets out in a single IFRS a framework for measuring fair value. *IFRS 13* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. *IFRS 13* is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
7. *IAS 27 – Consolidation and Separate Financial Statements* is required to be adopted for periods beginning January 1, 2013. *IAS 27* applies in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity presents separate financial statements.
8. *IAS 28 - Investments in Associates and Joint Ventures* 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.
9. *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.
10. *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 becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's annual report for the year ended December 31, 2013.

Management is currently evaluating the impact of the changes relevant to IFRS 7, IFRS 9, IFRS 11, IFRS 12, and IAS 28, IAS 32, and IAS 1; the remaining recent accounting pronouncements discussed above are not expected to have a material impact on the financial statements.

3. Recapitalization

On September 30, 2010, St. Augustine Mining Inc. ("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, Russell Mining and Minerals, Inc. ("RMMI"; now Russell Mining and Minerals ULC, "RMMU" (Note 8)), the majority shareholder in the recapitalized entity, received $2,000,000 in repayment of advances made to SAMI.

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

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 were contingently owed to RMMU upon the completion of a feasibility study on the Project, or any subsequent change of control. These shares comprised the $3,425,408 balance of shares to be issued on the statement of financial position at December 31, 2011, and were issued during the year ended December 31, 2012 (Note 9(a)). Ratel's 90,000,000 shares outstanding before the recapitalization were not split or otherwise adjusted. The following table summarizes the net assets acquired:

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

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 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 CDN$1.22 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.

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 until their expiration in June 2012. Of these options, 4,700,000 were exercised concurrent with the recapitalization, resulting in proceeds of $920,735. As part of the restructuring and recapitalization, RMMU was required to cancel certain rights and obligations under various agreements, 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 and $1,336,252 of additional capital contributions in SAMI and its subsidiary, which resulted in an additional amount of $126,341 in net equity in the recapitalized entity.

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 CDN$900,000. The notes become collectible to the Company upon the sale of the holders' shares, or on December 23, 2015. They are presented at their translated U.S. dollar values of $914,040 at December 31, 2012 (2011 - $882,360).

4. Transactions with Nationwide Development Corporation (NADECOR)

(a) Advances to NADECOR

Date of advance		**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 PHP$30,000,000, or approximately $731,700, 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. ("KKGCMI"), a joint venture entity now owned by NADECOR. At December 31, 2012, the advance plus accumulated interest totaled $738,512. Accordingly, the advance is presented on the statement of financial position at December 31, 2011 as restricted cash, not as a NADECOR advance, at the translated value of $693,697; in addition to this deposit, the Company had $250,000 in security deposits against the Company's credit card accounts, which together comprised the $943,697 balance of restricted cash at December 31, 2011. The security deposits earn a nominal amount of interest and are not related to NADECOR transactions; accordingly, the security deposits of $250,000 continue to be reported as restricted cash at December 31, 2012.

ii. In June 2012, the Company agreed to advance $399,000 to NADECOR. The advance earns a nominal amount of interest and is payable to the Company on June 22, 2013. The advance may be repaid through a credit towards the Company's earn-in, depending on certain future events addressed in the agreement.

(b) Other Agreements

1. *Community Relations and Security Agreement*

   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. During 2011, the Company paid $1,200,000 under the agreement, which was capitalized as investment in mining property. The agreement was terminated during the first quarter of 2012, as the services were no longer required.

2. *Joint Venture Coordinating Committee Agreement*

   On June 28, 2011, the Company also executed the Joint Venture Coordinating Committee Agreement with NADECOR. The agreement acted 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. In 2011, the Company paid $400,000 under the agreement. The agreement was terminated during the first quarter of 2012, as the services were no longer required.

3. *Joint Venture Subscription Agreement*

   In January 2012, the Company and NADECOR executed a subscription agreement which was amended and restated in September 2012 (collectively, "the Subscription Agreements"). The Subscription Agreements will result in the Company owning a percentage of the issued and outstanding equity of King-king Gold and Copper Mines, Inc., the Philippine joint venture company which will hold the Mineral Production Sharing Agreement between the joint venture and the Philippine government.

5. Investment in mining property

The Company has committed to spend $43,500,000 to complete a BFS for the Project, for which the Company earns a 45% interest in the Project. An additional 6% can be earned through interim payments to NADECOR and an additional 9% can be earned by funding a minimum of $32,000,000 in capital development expenditures ("CapEx"), subject to adjustment according to outcomes contemplated in the MOU. To earn the full 60% interest in the Project, the Company will spend, or pay to NADECOR, a total of $83,000,000, as outlined by the agreement summarized below and subject to adjustments for outcomes contemplated in the MOU. A primary variable which can change this minimum commitment is the planned tonnage throughput of mine operations, which has not been finalized. In the event that the Company's minimum commitment increases due to increased tonnage, 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 are summarized as follows:

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

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

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

i. Direct payment to NADECOR made in 2009;

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

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

iv. Direct project expenditures after the fulfillment of the $30 million required to be expended under the PSIA; the full amount has been expended as was approved by NADECOR in August 2012;

v. The timing of direct payments to NADECOR is contingent on events contemplated in the MOU. During the third quarter of 2011, $981,000 was paid, and the balance is expected to be paid during 2013 or 2014; and

vi. Total capital expenditures based on planned mine throughput. The minimum commitment is $32,000,000, which was fulfilled at December 31, 2012, and is subject to adjustment depending on the planned throughput of the mine.

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

Category	**BFS**	**CapEx**	**Acquisition payments to NADECOR**	**December 31, 2012**	**December 31, 2011**
Project expenditures	$ 36,681,156	$ 22,259,214	$ 1,878,000	$ 60,818,370	$ 41,622,987
Benguet settlement expenditures	-	24,898,458	-	24,898,458	23,183,344
Total	**$ 36,681,156**	**$ 47,157,672**	**$ 1,878,000**	**$ 85,716,828**	**$ 64,806,331**

Benguet settlement expenditures refers to the costs of causing a former Project interest holder, Benguet Corp. (“BC”), to relinquish its rights to the Project. These payments include the acquisition of debt owed by BC to third parties, the settlement of that debt with BC and direct payments to BC. Total BC payments include two cash payments to BC of $16,250,000, payments to acquire and settle BC’s former creditors of approximately $6,000,000 and earn-in credit earned by the Company for payments made on NADECOR’s behalf.

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, 2012**	**December 31, 2011**
Investment in mining property	$ 81,347,929	$ 64,651,019
Depreciable property (earn-in in full on purchase)	951,004	866,423
Qualifying fundraising costs	1,788,363	1,670,625
Interest earned on Nadecor advances	1,068,159	-
Disallowed/reserved expenditures and other book to earn-in differences	561,373	(2,381,736)
Estimated earn-in balance	**$ 85,716,828**	**$ 64,806,331**

Pursuant to MOU terms, NADECOR has a right to audit all expenditures reported by the Company towards earn-in. NADECOR has elected to audit all amounts expended and submitted for approval through September 30, 2012; expenditures for the three months ended December 31, 2012 will be submitted. Approximately $49,000,000 of the earn-in balance in the above table was approved as of December 31, 2012. Approximately $36,700,000 is currently under audit or within NADECOR's right to audit.

6. Property and equipment

	Vehicles	**Furniture and fixtures**	**Equipment**	**Buildings and leasehold improvements**	**Totals**
Cost balance, January 1, 2011	$ -	$ -	$ -	$ -	$ -
Additions	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
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
Accumulated depreciation, January 1, 2011	-	-	-	-	-
Additions	95,791	-	39,588	7,505	142,884
Disposals	-	-	(5,123)	-	(5,123)
Balance, December 31, 2011	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
Net book value, December 31, 2011	**$ 541,592**	**$ -**	**$ 210,718**	**$ 114,113**	**$ 866,423**
Net book value, December 31, 2012	**$ 430,704**	**$ 119,995**	**$ 203,285**	**$ 94,557**	**$ 848,541**

There were no indicators of impairment identified and no impairment loss recognized during the years ended December 31, 2012 and 2011, with respect to property and equipment.

7. Warrant liability

Warrants issued as part of a 2011 private placement of equity were deemed a derivative liability under IAS 32 because they are exercisable in Canadian dollars while the Company's functional currency is the U.S. dollar. The warrants are therefore required to be fair valued at each reporting date. At December 31, 2012, the fair value of the warrant liability, comprised of 14,737,500 whole warrants, was $755,509; the adjustment to fair value at December 31, 2012 resulted in annual expense in fair value adjustments of $439,242. The original expiration of the warrants was in November 17, 2012; however, the expiration date was extended to July 15, 2013.

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

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

Black Scholes assumptions - valuation of derivative warrant liability at December 31, 2012	
Risk free interest rate (i)	1.14%
Expected volatility (ii)	135%
Expected life, years (iii)	0.63
Exercise price ($CDN) (iv)	$ 0.75
Expected dividend yield (v)	0%

i. Based on the Bank of Canada’s published bond yields;
ii. Based on the Company’s historical volatility;
iii. Based on contract terms;
iv. Based on contract terms; and
v. Based on management’s expectation over the remaining term of the warrants.

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:

	Year ended December 31,	
Compensation	**2012**	**2011**
Officer salaries and director compensation	$ 3,302,720	$ 3,113,861
Share-based compensation	2,746,909	5,177,168
Total	**$ 6,049,629**	**$ 8,291,029**

See Note 9(a)(vii) for further description of transactions with directors.

(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	**2012**	**2011**
Services rendered:		
Norton Rose Canada LLP (i)	$ 220,954	$ 197,846
Reimbursement of third party expenses incurred on the Company's behalf:		
Russell Mining Corporation (ii)	349,570	227,967
Total	**$ 570,524**	**$ 425,813**

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

Related party receivable	Year ended December 31, 2012	2011
Josephine Mining Corp. (iii)	$ 136,026	16,834
Russell Mining Corporation (iii)	2,904	-
Total	**$ 138,930**	**$ 16,834**

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

Related party balances payable	Year ended December 31, 2012	2011
Norton Rose Canada LLP (i)	$ 20,167	$ 16,346
Russell Mining Corporation (ii)	-	34,937
Total	**$ 20,167**	**$ 51,283**

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

ii. Russell Mining Corporation ("RMC") is the parent of 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. and RMC have directors in common with the Company, and share corporate headquarters. The aforementioned entities and the Company reimburse RMC for office rent and other general and administrative expenses and all entities advance certain shared expense payments to one another for administrative convenience.

9. Shareholders' equity

(a) Share capital

Share capital continuity schedule		Shares	Share capital
Balance, January 1, 2011		10,000,001	$ 2,069,664
Ratel's shares acquired	Note 3	90,000,000	-
SAMI's shares eliminated on recapitalization	Note 3	(10,000,001)	-
Cancellation of warrants from SAMI	Note 3	-	1,739,000
Shares issued on recapitalization	Note 3	80,000,000	3,653,795
Additional capital contributed	i	-	1,462,593
Shares issued to ex-officers for notes receivable	Note 3	3,000,000	904,159
Options exercised concurrent with recapitalization	Note 3	4,700,000	920,735
Private placement concurrent with recapitalization	ii	83,333,334	25,196,041
Additional private placement at CDN$1.22, net of share issue costs of $1,282,125	iii	32,800,000	38,918,800
Exercise of share options	iv	1,950,000	398,733
Private placement of Units at CDN$0.40, net of share issue costs of $388,500	v	29,475,000	10,813,879
Balance, December 31, 2011		**325,258,334**	**$ 86,077,399**
Issuance of 75,000,000 shares	vi	75,000,000	3,425,408
Private placement of Units at US$0.1883805, net of share issue costs of $82,165	vii	25,000,000	2,896,238
Balance, December 31, 2012		**425,258,334**	**$ 92,399,045**

i. RMMU contributed $1,462,593 in capital accounts of entities consolidated by the Company following the recapitalization discussed at Note 3.

ii. In conjunction with the recapitalization (Note 3), the Company completed a private placement of 83,333,334 common shares at CDN$0.30 per share, resulting in proceeds of $25,196,041; there were no issuance costs.

iii. In an additional private placement in conjunction with the recapitalization (Note 3), the Company issued 32,800,000 shares at CDN$1.22 per share. Share issue costs were $1,282,125, resulting in net proceeds of $38,918,800.

iv. Share options with an exercise price of CDN$0.20, which originated prior to the recapitalization (Note 3), were exercised for proceeds of $398,733.

v. In December 2011, the Company closed a private placement of 29,475,000 equity units ("2011 Units"). Each Unit was comprised of one common share and half of one common share purchase warrant. Each of the 14,737,500 whole warrants entitled the holder to acquire one common share at a strike price of CDN$0.75 for a one year term. The Units were sold at CDN$0.40 for proceeds of $11,130,146, net of issuance costs of $388,500. Proceeds of $10,813,879 were allocated to share capital and proceeds of $316,267 were allocated to warrants. The warrants are reported as a derivative liability, and the term of the warrants was extended to July 2013 (Note 7).

vi. Under the terms of the Company's recapitalization agreement (Note 3), 75 million shares were issuable to RMMU upon completion of a feasibility study on the Project. The recapitalization agreement defined the feasibility study as "a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered to a level of detail typical for a feasibility study of this nature." These shares were valued at $3,425,408 on the date on which the Company was recapitalized; this amount was reclassified into share capital upon their release in October 2012.

vii. 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 is exercisable at a price of $0.2563 until October 16, 2013. Additionally, the subscriber of this private placement may acquire up to 4.65 million shares prior to July 15, 2013 for $0.75 per share in a separate transaction. Upon closing of this transaction, a party to the private placement became a member of the Company's board of directors.

(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 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.

Option-based charges totalled $3,220,355 during the year ended December 31, 2012, of which $1,386,794 was expensed. Cash wages of $1,316,214 and the option-based expenses comprise the total wages and share-based payments expense as reported on the consolidated statement of comprehensive loss for the year ended December 31, 2012 of $2,703,008 (2011 - $6,701,148).

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

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

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2011	$ -	-	$ -
Stock options granted	0.20 - 1.54	23,375,000	1.15
Stock options forfeited	0.28 - 1.54	(4,466,666)	1.51
Stock options exercised	0.20	(1,950,000)	0.20
Balance, December 31, 2011		**16,958,334**	**$ 1.16**
Stock options granted	$ 0.20 - 1.54	13,559,500	0.44
Stock options expired	0.20	(1,850,000)	0.20
Stock options forfeited	0.28 - 1.54	(1,466,667)	0.82
Balance, December 31, 2012		**27,201,167**	**$ 0.88**

The fair value of options granted during the annual periods ended December 31, 2012 and 2011, were 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, 2012 and 2011:

Black Scholes assumptions - share options issued during the years ended December 31, 2012 and 2011	**2012**	**2011**
Risk free interest rate (i)	1.17%	1.63%
Expected volatility (ii)	79%	86%
Expected life, years (iii)	3	3
Expected forfeiture rate (iv)	10%	6%
Expected dividend yield (v)	0%	0%

i. Based on the Bank of Canada's published bond yields;
ii. Based on the volatility of 5 peer companies;
iii. Estimated based on contract terms;
iv. Management's estimate based on past forfeitures; and
v. Based on management's expectations.

2. *Summary of share options outstanding and exercisable as at December 31, 2012 (dollars in CDN$)*

	Outstanding			Exercisable		
Exercise prices	**Number outstanding**	**Weighted average exercise**	**Weighted average remaining**	**Number outstanding**	**Weighted average exercise**	**Weighted average remaining**
$0.20 to $0.47	12,384,500	$ 0.35	4.55	4,536,506	$ 0.34	4.50
$0.48 to $0.74	2,000,000	0.59	3.65	1,500,002	0.60	3.63
$0.75 to $1.01	2,225,000	0.97	3.26	1,483,335	0.97	3.26
$1.02 to $1.55	10,591,667	1.54	3.21	6,783,340	1.54	3.17
Totals	**27,201,167**	**$ 0.88**	**3.86**	**14,303,183**	**$ 1.00**	**3.65**

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

(c) Warrant reserves

1. *Summary of warrants outstanding and exercisable at December 31, 2012*

Exercise price	Number outstanding	Remaining years
CDN$0.75 (Note 7)	14,737,500	0.54
$0.2563	7,500,000	0.78
Total outstanding / weighted average remaining life	**22,237,500**	**0.62**

Subsequent to December 31, 2012, 3,750,000 warrants were exercised (Note 16). Of the total outstanding warrants, 3,437,500 are held by insiders and were not exercisable at December 31, 2012. The extension of the warrants held by insiders is subject to disinterested shareholder approval at the Company's next shareholder meeting.

2. *Valuation of grants during 2012*

The 7,500,000 warrants issued in 2012 as part of the Unit placement described at Note 9(a) were valued at $1,695,517, net of issuance costs, on the date of issuance using the following assumptions:

Black Scholes assumptions - valuation of warrants issued in October 2012 Unit placement	
Risk free interest rate (i)	1.09%
Expected volatility (ii)	122%
Expected life, years (iii)	1
Exercise price ($US) (iv)	$0.2563
Expected dividend yield (iv)	0%

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

ii. Based on the Company's historical volatility;

iii. Based on contract terms;

iv. Based on contract terms; and

v. Based on management's expectations.

10. Income taxes

(a) Federal Corporate Income Taxes

The major components of income tax expense for the years ended December 31, 2012 and 2011 are:

	December 31, 2012	December 31, 2011
Current tax expense	$ 186,983	$ -
Deferred tax expense	-	-
Income tax expense	$ 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, 2012 and 2011 is as follows:

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

	December 31, 2012	2011
Expected tax benefit at statutory income tax rate of 0%	-	-
Tax rate differential	$ (97,097)	$ (12,537)
Permanent differences	185,011	15,998
Deferred tax asset not recognized	22,086	(3,461)
Other	76,983	-
Tax Expense	$ 186,983	$ -

(b) Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets at December 31, 2012 and 2011 are summarized as follows:

	December 31, 2012	2011
Non-capital losses	$ 293,129	$ 19,766
Capital assets	(271,043)	1,093
Deferred tax asset not recognized	(22,086)	(20,859)
Total	$ -	$ -

The Company has no deferred tax liabilities at either December 31, 2012 or 2011.

As of December 31, 2012, 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 $999,574, for which no deferred tax asset was recognized. Of this figure, $849,736 can be used until 2014 in the Philippines and $149,838 can be used until 2020 in the Netherlands.

11. Capital management

The following table summarizes the accounts under the Company's capital management program as of December 31, 2012 and 2011:

	December 31, 2012	2011
Cash and cash equivalents	$ 7,117,302	$ 24,656,885
Restricted cash	250,000	943,697
Warrant liability	755,509	316,267
Share capital	92,399,045	86,077,399
Share option reserves	9,921,503	6,701,148
Warrant reserves	1,695,517	-
Shares to be issued	-	3,425,408

At December 31, 2012, approximately $9,000 was held in banks in the Netherlands and $404,000 was held in banks in the Philippines. At December 31, 2011, approximately $285,000 was held in banks in the Netherlands and $244,000 was held in banks in the Philippines. The balance of cash in 2012 and 2011 was held in United States of America and Canadian banks.

The Company has $250,000 held by a large banking institution as collateral for the Company's credit cards. Restricted cash at December 31, 2011 included this deposit and the U.S. dollar equivalent of $693,397 in cash held in Philippine bank accounts, which was transferred to KKGCMI after December 31, 2011 (Note 4(a)).

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 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.

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

13. Financial instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks. At December 31, 2012, the Company's financial instruments include cash and cash equivalents, advances to NADECOR, notes receivable, warrant liability, 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 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 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 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.

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, 2012	Less than 1 year	1 to 3 years	Greater than 3 years	Total
Accounts payable	$ 1,846,503	-	-	$ 1,846,503
Due to related parties	20,167	-	-	20,167
Totals	$ 1,866,670	-	-	$ 1,866,670

(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, 2012			At December 31, 2011	
		Foreign Amount	USD Amount		Foreign Amount	USD Amount
Cash accounts						
Philippine pesos	₱	16,588,140	$ 404,419	₱	48,252,562	$ 1,042,255
Euro	€	7,022	9,259	€	19,000	27,575
GST receivable	C$	23,420	23,540	C$	2,341	2,327
Total foreign currency assets			**$ 437,218**			**$ 1,072,157**

Foreign Currency Liabilities		At December 31, 2012			At December 31, 2011	
		Foreign Amount	USD Amount		Foreign Amount	USD Amount
Accounts payable & accrued liabilities						
Canadian dollars	C$	82,265	$ 82,686	C$	41,796	$ 40,960
Philippine pesos	₱	3,755,297	91,554	₱	23,737,079	522,887
Euros	€	63,009	83,081	€	21,015	28,073
Honk Kong dollars	HK$	117,915	15,213	HK$	-	-
Australian dollars	A$	-	-	A$	71,560	72,590
Total foreign currency liabilities			**$ 272,534**			**$ 664,510**

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 in net loss in the period of approximately $24,000 (2011 – $23,000). This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

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(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.

14. Commitments and contingencies

(a) NADECOR

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

(b) Rental agreement

The Company's office lease commitment to RMC (Note 8(b)), 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, 2012, total $346,756.

(c) Contingent private placement

As discussed at Note 9(a), the subscriber to the private placement closed during October 2012 also has the right to participate in another private placement. The subscriber may acquire up to 4.65 million shares at $0.75 per share until July 15, 2013.

(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.

15. 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, 2012.

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

(b) Asset ownership by geographic location

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	$ 82,420,429	$ 2,359,423	$ 92,364,203

As at December 31, 2011	Philippines	United States	Total
Investment in mining property	$ 64,651,019	-	$ 64,651,019
Property and equipment	725,559	140,864	866,423
Totals	$ 67,290,217	$ 24,122,188	$ 92,497,092

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

16. Subsequent events

In January 2013, the warrant holder from the Company's Unit issuance in October 2012 (Note 9(a)), Queensberry, exercised 3,750,000 whole warrants at $0.2563 per share for proceeds to the Company of $961,125. The transaction increased the Company's outstanding shares to 429,008,334 and reduced warrants outstanding to 18,487,500.